To Paula Mammarella Date 12.1.97

From: Carolyn Schwarz / Barb Werkmeister, PNC Corporate Credit Policy, P1-POPP-22-1 Phone: (412) 762 - 3236 / 8456 Fax: (412) ~~762-6944~~ 705.0784

The following is the information we recorded about your transaction and / or the information you requested. This cover page does not need to be included in the credit offering. PLEASE NOTIFY US OF ANY ERRORS OR IF THE TRANSACTION IS CHANGED OR NOT ACCEPTED BY THE CUSTOMER.

Phone 8.3804 Fax 8-5149 Market Pgh Dept/Flr

Borrower Allegheny General Hospital New or Renewal Renewal Maturity 364 day Loan Acct #

Exposure to bank(s) must be approved, even if it is within PNC-wide limits. Bank Exp. Report & summary fin'l info should be included in credit offering.

If International Bank, Rel. Manager needs to contact Fred Mayer, 412-762-2545 for review/recommendation on credit, country limit & IBCA report. Yes

If Standby L/C: Expiration Date Underlying Maturity Rel Mgr needs to send Standby Collateral Worksheet to Coml Loan Ops.

If participation sold in unfunded commitment or commitment) Please tell Com'l Loan Ops that the participation sold pay code is ____.
to front letters of credit (sub limit in syndicated revolver):) Also request approval for exposure to bank(s) in Action Requested Section of Approval Document.

Details of Transaction Renewal of $13.18 million risk paritcipation sold.

Bank	Parent Bank Holding Co	City / Country	State	$ Amount	% participation	Thomson BankWatch Rating / Score	IBCA Rating	Risk Ra'
Sanwa Bank Ltd		Japan					C1	

PNC30852

Spreads: Bank ✓ Parent_ Ratio pg w. peer: Bank_ Parent_ Full Fin'ls: Bank_Parent_ Group Fin'l Comparison: Banks_Parents_ Bank Expos. Report? ✓ MRE Detail Sheet_

CC: Fred Mayer

17-Jun-96 03:31 PM d:\123data\mass.wk3/m3

17

INTE..NATIONAL BANK EXPOSURE REPORT

SANWA BANK LTD
JAPAN

IBCA Rating: C1 Risk Rating: 3

Exposure within PNC-wide limits must still be specifically approved.

PNC-wide Approved International Exposure Limits ($ millions)

Total	Term	Adjusted Term
150	25	25

Current PNC-wide International Exposure (after this transaction)

Total	Term	Adjusted Term
42.27	12.14	12.14

Action Requested: Renewal of $13.18 million risk participation

Is exposure within PNC-wide international exposure limits? Yes

Exposure including Sanwa Bank Ltd (parent), Sanwa Business Credit Corp (sub) and Sanwa Securities (USA) Co. (sub) is:

PNC-wide MRE:	$48.47	million
PNC Bank, N.A. MRE:	$42.08	million
PNC Bank, Pittsburgh MRE:	$38.88	million

Management Exceptions

1. Is this unsecured exposure over $1 million to a bank with a risk rating below 6? No

2. Is this unsecured term exposure over $1 million to a bank with a risk rating below 4? No

Is Special Approval required due to the International Bank policy? No

Regulation F

Correspondent Bank: Sanwa Bank Ltd

Adequately capitalized? Yes

Prepared by Barb Werkmeister 412-762-8456 / Carolyn B. Schwarz 412-762-3236, Corporate Credit Policy, Banks Table - Report 9

Date Printed: 12/01/97 Prepared For: Paula Mammarolla

Sanwa Bank Ltd

Fushimimachi 3-Chome, 5-6 - Chuo-ku
541 OSAKA
JAPAN
Phone : 81 (6) 206 81 11

IBCA RATINGS			
Long Term	: AA-	Nickname	: SANWAC
Short Term	: A1+	Release date	: Sep. 30, 1997
Legal	: 1	BVD Number	: 30212
Individual	: C	Swift Code	: SANW JP JS
Sovereign	: AAA	Country Rank, 1996	: 2
		(JP) rolling	: 5
		World Rank, 1996	: 2
		Rolling	: 8

Commercial Bank — Total Assets (1997), in bil JPY : 53,023.7

Consolidated Statement (JAPAN) — Source : Annual Report — Statement published in : JPY

BANK RATINGS

IBCA	As at 10/97	Last Change	MOODY'S	As at 10/97	Last Change
Long Term	: AA-	10/97 (AA)	Bank Deposits LT	: Aa3	5/94 (n.a.)
Short Term	: A1+	3/88 (n.a.)	Bank Deposits ST	: P-1	5/94 (n.a.)
Legal	: 1		LT Debt Senior	: Aa3	5/96 (n.a.)
Individual	: C	6/96 (B/C)	Financial Strength	: C+	4/96 (n.a.)

STANDARD & POORS	As at 10/97	Last Change	THOMSON BANKWATCH	As at 11/97	Last Change
Long Term Debt	: A	5/96 (A)	Short Term Debt	: TBW-1	4/96 (n.a.)
Short Term Debt	: A-1	5/96 (A-1)			

COUNTRY RATINGS (JP)		Last Change
IBCA, Sovereign Rating	: AAA	8/94

SPREADSHEET

BALANCE SHEET

	Unqualified 3/31/95 bil JPY	Unqualified 3/31/96 bil JPY	Unqualified 3/31/97 bil JPY	Unqualified 3/31/97 mil USD	Rel Size 97 %
Exchange Rate : USD/JPY	-	-	-	0.00806	-
ASSETS					
A. LOANS					
1. Domestic loans	34,468.1	36,729.1	37,920.5	305,564.1	71.52
2. Foreign loans	n.a.	n.a.	n.a.	n.a.	n.a.
3. Trust a/c loans	0.0	0.0	0.0	0.0	negl.
TOTAL A	34,468.1	36,729.1	37,920.5	305,564.1	71.52
B. OTHER EARNING ASSETS					
1. Deposits with Banks	8,393.1	6,796.3	4,670.9	37,638.2	8.81
2. Trading Securities	960.8	610.4	765.7	6,170.0	1.44
3. Japanese Public Bonds	1,287.5	1,525.0	1,582.8	12,754.2	2.98
4. Other Investments	2,092.2	2,175.3	2,119.2	17,076.6	4.00
5. Equity Investments	2,536.4	2,806.0	3,076.9	24,793.7	5.80
6. Trust A/c Earning Assets	0.0	0.0	0.0	0.0	negl.
TOTAL B	15,270.0	13,913.0	12,215.5	98,432.7	23.04
C. TOTAL EARNING ASSETS (A+B)	49,738.1	50,642.1	50,136.0	403,996.8	94.55
D. FIXED ASSETS	368.8	405.8	402.8	3,245.8	0.76
E. NON-EARNING ASSETS					
1. Cash and Due from Banks	0.1	0.2	0.2	1.6	negl.
2. Other	1,815.3	1,950.7	2,256.7	18,184.5	4.26
3. Deferred Tax Receivable	98.0	252.0	228.0	1,837.2	0.43
F. TOTAL ASSETS	52,020.3	53,250.8	53,023.7	427,265.9	100.00
LIABILITIES					
G. DEPOSITS & MONEY MARKETS FUNDING					

PNC30854

1. Demand & savings	11,787.6	12,620.2	11,231.7	90,505.2	21.18
2. Time (incl foreign interbank)	24,705.4	23,612.9	22,625.7	182,318.3	42.67
3. Domestic interbank	5,926.5	6,367.2	6,861.3	55,288.5	12.94
4. Other	4,352.3	4,808.3	5,172.3	49,736.5	11.64
TOTAL G	46,771.8	47,408.6	46,891.0	377,848.5	88.43
H. OTHER FUNDING					
1. Convertible Bonds	26.4	18.4	18.4	148.3	0.04
2. Debentures	107.6	158.8	256.4	2,060.1	0.48
3. Subordinated Debt	1,058.0	1,330.3	1,557.8	12,552.8	2.94
4. Trust A/c Funds	0.0	0.0	0.0	0.0	negl.
TOTAL H	1,192.0	1,507.5	1,832.6	14,767.1	3.46
I. OTHER Non-Int. bearing	1,685.8	1,689.7	1,604.1	14,537.5	3.40
J. LOAN LOSS RESERVES	367.0	766.3	615.2	4,957.3	1.16
L. EQUITY					
1. Preference shares	n.a.	n.a.	n.a.	n.a.	n.a.
2. Common equity	2,023.7	1,878.7	1,880.8	15,155.5	3.55
Total L	2,023.7	1,878.7	1,880.8	15,155.5	3.55
M. TOTAL LIABILITIES & EQUITY	52,020.3	53,250.8	53,023.7	427,265.9	100.00

PNC30855

INCOME STATEMENT

	Unqualified 3/31/95 bil JPY	Unqualified 3/31/96 bil JPY	Unqualified 3/31/97 bil JPY	Unqualified 3/31/97 mil USD	Rel Size 97 %
Exchange Rate : USD/JPY	-	-	-	0.00806	-
1. Interest Received	2,387.0	2,746.4	2,506.1	20,194.2	315.75
2. Interest Paid	1,808.5	2,027.2	1,853.3	14,933.9	233.50
3. Trust Fees	n.a.	n.a.	n.a.	n.a.	n.a.
4. NET INTEREST REVENUE	578.5	719.2	652.8	5,260.3	82.25
5. Other Operating Income	118.4	186.8	140.9	1,135.4	17.75
6. Personnel costs	n.a.	n.a.	n.a.	n.a.	n.a.
7. Other non-int. expenses	439.5	444.8	498.1	4,013.7	62.76
8. OPERATING PROFIT (Bef.Provs)	257.4	461.2	295.6	2,382.0	37.24
(memo) Gyomu-juneki	n.a.	n.a.	n.a.	n.a.	n.a.
9. Loan loss provisions	377.9	975.0	471.9	3,802.6	59.46
10. OPERATING PROFIT	-120.5	-513.8	-176.3	-1,420.6	-22.21
11. Equity Inv. + Tokkin gains/losses	183.2	259.7	237.7	1,915.4	29.95
12. Special Items - net	-2.3	-1.1	-0.9	-7.3	-0.11
13. PRE-TAX PROFIT	60.4	-255.2	60.5	487.5	7.62
14. Goodwill Write-off	n.a.	n.a.	0.1	0.8	0.01
15. Taxes on Income	38.5	-129.7	35.5	286.1	4.47
16. Share of Associates' Net Income	1.1	1.5	1.7	13.7	0.21
17. NET INCOME	23.0	-124.0	26.6	214.3	3.35

RATIOS (%)

	Unqualified 3/31/95 bil JPY	Unqualified 3/31/96 bil JPY	Unqualified 3/31/97 bil JPY	Unqualified 3/31/97 mil USD	Rel Size 97 %
Exchange Rate : USD/JPY	-	-	-	0.00806	-
I. PROFITABILITY LEVEL					
1. Gyomu Juneki/Total Assets (av.) (%)	n.a.	n.a.	n.a.	n.a.	
2. Operating profit bef.provs/Assets (%)	0.50	0.86	0.56	0.56	
3. Operating profit/Assets (%)	-0.23	-0.96	-0.33	-0.33	
4. Net Income/Total Assets(av.) (%)	0.04	-0.24	0.05	0.05	
5. Net Income/Equity(av.) (%)	1.14	-6.36	1.42	1.42	
6. Net Inc less pref div/Common equity (%)	1.14	-6.36	1.42	1.42	
7. Non-int. Expenses/Net Int. Rev. +Other Operating Income (%)	63.07	49.10	62.76	62.76	
8. Net Interest Rev./Total Assets(av (%)	1.12	1.37	1.23	1.23	
II. CAPITAL					
1. Internal Capital Growth (%)	-0.09	-7.39	0.11	0.11	
2. Equity/Total Assets (%)	3.89	3.53	3.55	3.55	
3. Capital/Risks - Tier 1 (%)	5.21	4.56	4.55	4.55	
4. Capital/Risks - Total (%)	9.18	9.12	9.11	9.11	
III. LIQUIDITY (year end)					
1. Liquid Assets/Deposits & Money Mkt Funding (%)	19.82	15.72	11.25	11.25	
2. Liquid Assets & Marketable debt Sec./ Deposits and Money Market Funding (%)	22.83	19.35	14.57	14.57	
3. Loans/Deposits & Money Mkt Funding (%)	73.69	77.47	80.87	80.87	
IV. ASSET QUALITY					
1. Net Charge-offs/Bkg a/c Loans (av) (%)	0.57	0.20	0.02	0.02	
2. Loan Loss Provs/Bkg a/c Loans (av) (%)	1.09	2.74	1.26	1.26	
3. LLP/Pre-tax Profit + LLP (%)	86.22	135.45	88.64	88.64	
4. Specific Reserve/Gross Impaired loans (%)	n.a.	n.a.	n.a.	n.a.	
5. Loan Loss Reserves/Gross Loans (%)	1.05	2.09	1.62	1.62	
6. Gross Impaired Loans/Gross Loans (%)	n.a.	n.a.	n.a.	n.a.	

RAROC Calculator RAROC Report ?/18/97 10:14:13 AM

PowerID: 0000140975
Company: ALLEGHENY GENERAL OBLIGATED GROUP

Borrower Grade: 2

Agency	Rating	Date
KMV EDF		
Standard & Poor's*	A	12/18/97
Moody's	A2	12/18/97
ALCAR		
PNC BG	3	12/15/97

* Denotes Rating used to derive metrics

The after-tax Relationship RAROC is 75.03% for the credit and non-credit business currently being considered. The breakdown of Relationship RAROC follows.

Credit Revenue, Expected Loss, Equity Credit and Regulatory Capital represent Average Annual amounts.
Non-Credit Revenue and Risk Capital represent Projected Year 1 Profit and Operational Risk Capital respectively.
Regulatory Capital is calculated using a simplified template. It should be interpreted as a best approximation.

Credit and Relatshp RAROC =	The Modified Internal Rate of Return that discounts after-tax risk-adjusted cash flows to equal Risk Capital. The Credit RAROC is adjusted for Equity Credit.
Regulatory ROC =	((Revenue - Expected Loss + Equity Credit) * (1 - PNCTaxRate)) / Regulatory Capital
Non-Credit RAROC =	(Revenue / Risk Capital) * (1 - PNC Tax Rate)
PNC Tax Rate =	35%.

CREDIT:

Facility/(Rating)	AfterTax RAROC	Reg.ROC	NPV	Revenue	Expected Loss	Equity Credit	Risk Capital	Reg. Capital
L/C Financial(3)	59.56%	4.67%	$281,475	$180,083	$2,303	$10,279	$205,587	$2,619,392
L/C Financial(3)	8.64%	2.85%	-$731	$375	$47	$198	$3,967	$12,000
L/C Financial(3)	477.23%	4.91%	$90,891	$82,306	$411	$932	$18,643	$1,097,418
Credit Totals	75.03%	4.73%	$371,635	$262,764	$2,761	$11,409	$228,197	$3,728,810
NON-CREDIT:								
Non-Credit Totals	0.00%		$0	$0			$0	
RELATIONSHIP:	75.03%		$371,635	$262,764			$228,197	

Assumptions Reviewed and Agreed Upon:
Relationship Mgr.: [signature] Credit Officer: ____________________

PNC30857

PowerID: 0000140975
Company: ALLEGHENY GENERAL OBLIGATED GROUP

Borrower Grade: 2

Agency	Rating	Date
KMV EDF		
Standard & Poor's*	A	12/18/97
Moody's	A2	12/18/97
ALCAR		
PNC BG	3	12/15/97

* Denotes Rating used to derive metrics

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Regulatory ROC = ((Revenue - Expected Loss + Equity Credit) * (1 - PNCTaxRate)) / Regulatory Capital
Non-Credit RAROC = (Revenue / Risk Capital) * (1 - PNC Tax Rate)
PNC Tax Rate = 35%.

CREDIT:

Facility/(Rating)	AfterTax RAROC	Reg.ROC	NPV	Revenue	Expected Loss	Equity Credit	Risk Capital	Reg. Capital
L/C Financial(3)	59.56%	4.67%	$281,475	$180,083	$2,303	$10,279	$205,587	$2,619,392
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Credit Totals	75.03%	4.73%	$371,635	$262,764	$2,761	$11,409	$228,197	$3,728,810
NON-CREDIT:								
Non-Credit Totals	0.00%		$0	$0			$0	
RELATIONSHIP:	75.03%		$371,635	$262,764			$228,197	

PNC30858

RAROC Calculator — RAROC Report — ?/18/97 10:14:13 AM Page 2

PowerID: 0000140975
Company: ALLEGHENY GENERAL OBLIGATED GROUP

Credit Facilities

	Facility 1	Facility 2	Facility 3	Facility 4	Facility 5
STRUCTURE:					
Type Of Loan	L/C Financial	L/C Financial	L/C Financial		
Total Commitment	$47,742,411	$150,000	$26,897,500		
PNC's Share	$32,742,411	$150,000	$13,717,725		
COLLATERAL:					
Facility Rating	3	3	3		
Secured?	Yes	No	Yes		
Tight Covenants?		No			

Facility-Specific	Market Value	LiqRatio	Market Value	LiqRatio	Market Value	LiqRatio
Cash						
Other Marketable Sec.						
Accounts Receivable	$55,013,000	80%			$55,013,000	80%
Inventory						
Property & Plant						
Equipment						
Guarantee						
Other						
Guarantor						

EBITDA
Enterprise Multiple
Funded Non-PNC Debt
Enterprise Value

Cross-Collateralization	Set 1		Set 2	
Facilities in Set				
	Market Value	LiqRatio	Market Value	LiqRatio
Cash				
Other Marketable Sec.				
Accounts Receivable				
Inventory				
Property & Plant				
Equipment				
Guarantee				
Other				
Guarantor				

	Facility 1	Facility 2	Facility 3
EXPECTED RECOVERY:	92.18%	65.00%	95.00%
FEES: (PNC's Revenue in bp)			
Commitment			
Upfront/Syndications			5.00 bp
Spread/Program			
Annual/Letter of Credit	55.00 bp	25.00 bp	55.00 bp

AMORTIZATION & USAGE:						
Original Life > 1 Yr?	Yes		Yes		No	
	Amort/Reduction	Usage	Prin/Maturity	Usage	Prin/Maturity	Usage
Projected Year 1		100%		100%	$26,897,500	100%
Projected Year 2		100%		100%		
Projected Year 3	$47,742,411	100%	$150,000	100%		
Projected Year 4						
Projected Year 5						
Projected Year 6						
Projected Year 7						
Projected Year 8						
Projected Year 9						
Projected Year 10						

PNC30859

RAROC Calculator RAROC Report ?/18/97 4:14:37 PM

PowerID:
Company: ALLEGHENY UNIVERSITY MEDICAL CENTERS

Borrower Grade: 4

Agency	Rating	Date
KMV EDF		
Standard & Poor's		
Moody's		
ALCAR		
PNC BG*	4	12/18/97

* Denotes Rating used to derive metrics

The after-tax Relationship RAROC is 10.83% for the credit and non-credit business currently being considered. The breakdown of Relationship RAROC follows.

Credit Revenue, Expected Loss, Equity Credit and Regulatory Capital represent Average Annual amounts.
Non-Credit Revenue and Risk Capital represent Projected Year 1 Profit and Operational Risk Capital respectively.
Regulatory Capital is calculated using a simplified template. It should be interpreted as a best approximation.

Credit and Relatshp RAROC =	The Modified Internal Rate of Return that discounts after-tax risk-adjusted cash flows to equal Risk Capital. The Credit RAROC is adjusted for Equity Credit.
Regulatory ROC =	((Revenue - Expected Loss + Equity Credit) * (1 - PNCTaxRate)) / Regulatory Capital
Non-Credit RAROC =	(Revenue / Risk Capital) * (1 - PNC Tax Rate)
PNC Tax Rate =	35%.

CREDIT:

Facility/(Rating)	AfterTax RAROC	Reg.ROC	NPV	Revenue	Expected Loss	Equity Credit	Risk Capital	Reg. Capital
L/C Financial(4)	10.83%	2.91%	-$1,529	$5,130	$1,748	$1,449	$28,999	$108,000
Credit Totals	10.83%	2.91%	-$1,529	$5,130	$1,748	$1,449	$28,999	$108,000
NON-CREDIT:								
Non-Credit Totals	0.00%		$0	$0			$0	
RELATIONSHIP:	10.83%		-$1,529	$5,130			$28,999	

Assumptions Reviewed and Agreed Upon:

Relationship Mgr.: Paul A. Mammarella Credit Officer: ____________

PNC30860

PowerID:
Company: ALLEGHENY UNIVERSITY MEDICAL CENTERS

Borrower Grade: 4

Agency	Rating	Date
KMV EDF		
Standard & Poor's		
Moody's		
ALCAR		
PNC BG*	4	12/18/97

* Denotes Rating used to derive metrics

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Credit Revenue, Expected Loss, Equity Credit and Regulatory Capital represent Average Annual amounts.
Non-Credit Revenue and Risk Capital represent Projected Year 1 Profit and Operational Risk Capital respectively.
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Regulatory ROC =	((Revenue - Expected Loss + Equity Credit) * (1 - PNCTaxRate)) / Regulatory Capital
Non-Credit RAROC =	(Revenue / Risk Capital) * (1 - PNC Tax Rate)
PNC Tax Rate =	35%.

CREDIT:

Facility/(Rating)	AfterTax RAROC	Reg.ROC	NPV	Revenue	Expected Loss	Equity Credit	Risk Capital	Reg. Capital
L/C Financial(4)	10.83%	2.91%	-$1,529	$5,130	$1,748	$1,449	$28,999	$108,000
Credit Totals	10.83%	2.91%	-$1,529	$5,130	$1,748	$1,449	$28,999	$108,000
NON-CREDIT:								
Non-Credit Totals	0.00%		$0	$0			$0	
RELATIONSHIP:	10.83%		-$1,529	$5,130			$28,999	

PNC30861

PowerID:
Company: ALLEGHENY UNIVERSITY MEDICAL CENTERS

Credit Facilities

	Facility 1		Facility 2		Facility 3	Facility 4	Facility 5
STRUCTURE:							
Type Of Loan	L/C Financial						
Total Commitment	$1,350,000						
PNC's Share	$1,350,000						
COLLATERAL:							
Facility Rating	4						
Secured?	No						
Tight Covenants?	No						
Facility-Specific	Market Value	LiqRatio					
Cash							
Other Marketable Sec.							
Accounts Receivable							
Inventory							
Property & Plant							
Equipment							
Guarantee							
Other							
Guarantor							
EBITDA							
Enterprise Multiple							
Funded Non-PNC Debt							
Enterprise Value							
Cross-Collateralization	Set 1		Set 2				
Facilities in Set							
	Market Value	LiqRatio	Market Value	LiqRatio			
Cash							
Other Marketable Sec.							
Accounts Receivable							
Inventory							
Property & Plant							
Equipment							
Guarantee							
Other							
Guarantor							
EXPECTED RECOVERY:	65.00%						
FEES: (PNC's Revenue in bp)							
Commitment							
Upfront/Syndications							
Spread/Program							
Annual/Letter of Credit	37.50 bp						
AMORTIZATION & USAGE:							
Original Life > 1 Yr?	No						
	Amort/Reduction	Usage					
Projected Year 1	$1,350,000	100%					
Projected Year 2							
Projected Year 3							
Projected Year 4							
Projected Year 5							
Projected Year 6							
Projected Year 7							
Projected Year 8							
Projected Year 9							
Projected Year 10							

RAROC Calculator RAROC Report 2/19/97 9:40:48 AM

PowerID: 0000140975
Company: DELAWARE VALLEY OBLIGATED GROUP

Borrower Grade: 5

Agency	Rating	Date
KMV EDF		
Standard & Poor's		
Moody's		
ALCAR		
PNC BG*	5	12/17/97

* Denotes Rating used to derive metrics

The after-tax Relationship RAROC is 10.02% for the credit and non-credit business currently being considered. The breakdown of Relationship RAROC follows.

Credit Revenue, Expected Loss, Equity Credit and Regulatory Capital represent Average Annual amounts.
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Regulatory ROC = ((Revenue - Expected Loss + Equity Credit) * (1 - PNCTaxRate)) / Regulatory Capital
Non-Credit RAROC = (Revenue / Risk Capital) * (1 - PNC Tax Rate)
PNC Tax Rate = 35%.

CREDIT:

Facility/(Rating)	AfterTax RAROC	Reg.ROC	NPV	Revenue	Expected Loss	Equity Credit	Risk Capital	Reg. Capital
L/C Financial(5)	10.04%	3.21%	-$289,644	$143,948	$34,259	$52,904	$1,058,080	$3,290,255
L/C Financial(5)	10.04%	3.21%	-$308,962	$153,549	$36,544	$56,432	$1,128,650	$3,509,702
L/C Financial(5)	3.80%	1.67%	-$3,573	$3,420	$3,150	$1,584	$31,682	$72,000
Credit Totals	10.02%	3.20%	-$602,180	$300,917	$73,953	$110,920	$2,218,412	$6,871,957
NON-CREDIT:								
Non-Credit Totals	0.00%		$0	$0			$0	
RELATIONSHIP:	10.02%		-$602,180	$300,917			$2,218,412	

Assumptions Reviewed and Agreed Upon:

Relationship Mgr.: [signature] Credit Officer: ____________

PNC30863

PowerID: 0000140975
Company: DELAWARE VALLEY OBLIGATED GROUP

Borrower Grade: 5

Agency	Rating	Date
KMV EDF		
Standard & Poor's		
Moody's		
ALCAR		
PNC BG*	5	12/17/97

* Denotes Rating used to derive metrics

The after-tax Relationship RAROC is 10.02% for the credit and non-credit business currently being considered. The breakdown of Relationship RAROC follows.

Credit Revenue, Expected Loss, Equity Credit and Regulatory Capital represent Average Annual amounts.
Non-Credit Revenue and Risk Capital represent Projected Year 1 Profit and Operational Risk Capital respectively.
Regulatory Capital is calculated using a simplified template. It should be interpreted as a best approximation.

Credit and Relatshp RAROC = The Modified Internal Rate of Return that discounts after-tax risk-adjusted cash flows to equal Risk Capital. The Credit RAROC is adjusted for Equity Credit.
Regulatory ROC = ((Revenue - Expected Loss + Equity Credit) * (1 - PNCTaxRate)) / Regulatory Capital
Non-Credit RAROC = (Revenue / Risk Capital) * (1 - PNC Tax Rate)
PNC Tax Rate = 35%.

CREDIT:

Facility/(Rating)	AfterTax RAROC	Reg.ROC	NPV	Revenue	Expected Loss	Equity Credit	Risk Capital	Reg. Capital
L/C Financial(5)	10.04%	3.21%	-$289,644	$143,948	$34,259	$52,904	$1,058,080	$3,290,255
L/C Financial(5)	10.04%	3.21%	-$308,962	$153,549	$36,544	$56,432	$1,128,650	$3,509,702
L/C Financial(5)	3.80%	1.67%	-$3,573	$3,420	$3,150	$1,584	$31,682	$72,000
Credit Totals	10.02%	3.20%	-$602,180	$300,917	$73,953	$110,920	$2,218,412	$6,871,957
NON-CREDIT:								
Non-Credit Totals	0.00%		$0	$0			$0	
RELATIONSHIP:	10.02%		-$602,180	$300,917			$2,218,412	

PNC30864

RAROC Calculator — RAROC Report — 1/19/97 9:40:48 AM Page 2

PowerID: 0000140975
Company: DELAWARE VALLEY OBLIGATED GROUP

Credit Facilities

	Facility 1	Facility 2	Facility 3	Facility 4	Facility 5
STRUCTURE:					
Type Of Loan	L/C Financial	L/C Financial	L/C Financial		
Total Commitment	$50,805,480	$54,194,000	$900,000		
PNC's Share	$41,128,198	$43,871,282	$900,000		
COLLATERAL:					
Facility Rating	5	5	5		
Secured?	Yes	Yes	No		
Tight Covenants?			No		

Facility-Specific	Market Value	LiqRatio	Market Value	LiqRatio	Market Value	LiqRatio
Cash						
Other Marketable Sec.						
Accounts Receivable	$201,914,000	80%	$201,914,000	80%		
Inventory						
Property & Plant						
Equipment						
Guarantee						
Other						
Guarantor						
EBITDA						
Enterprise Multiple						
Funded Non-PNC Debt						
Enterprise Value						

Cross-Collateralization	Set 1		Set 2	
Facilities in Set				
	Market Value	LiqRatio	Market Value	LiqRatio
Cash				
Other Marketable Sec.				
Accounts Receivable				
Inventory				
Property & Plant				
Equipment				
Guarantee				
Other				
Guarantor				

	Facility 1	Facility 2	Facility 3
EXPECTED RECOVERY:	95.00%	95.00%	65.00%
FEES: (PNC's Revenue in bp)			
Commitment			
Upfront/Syndications			
Spread/Program			
Annual/Letter of Credit	35.00 bp	35.00 bp	37.50 bp
AMORTIZATION & USAGE:			
Original Life > 1 Yr?	Yes	Yes	No

	Amort/Reduction	Usage	Prin/Maturity	Usage	Prin/Maturity	Usage
Projected Year 1		100%		100%	$900,000	100%
Projected Year 2		100%		100%		
Projected Year 3		100%		100%		
Projected Year 4		100%		100%		
Projected Year 5	$50,805,480	100%	$54,194,000	100%		
Projected Year 6						
Projected Year 7						
Projected Year 8						
Projected Year 9						
Projected Year 10						

PNC30865

AROC Calculator RAROC Report ?/22/97 10:19:49 AM

›werID:
›mpany: ALLEGHENY INTEGRATED HEALTH GROUP

3orrower Grade: 5

Agency	Rating	Date
KMV EDF		
Standard & Poor's		
Moody's		
ALCAR		
PNC BG*	5	12/22/97

* Denotes Rating used to derive metrics

The after-tax Relationship RAROC is 1.40% for the credit and non-credit business currently being considered. The breakdown of Relationship RAROC follows.

Credit Revenue, Expected Loss, Equity Credit and Regulatory Capital represent Average Annual amounts.
Non-Credit Revenue and Risk Capital represent Projected Year 1 Profit and Operational Risk Capital respectively.
Regulatory Capital is calculated using a simplified template. It should be interpreted as a best approximation.

Credit and Relatshp RAROC = The Modified Internal Rate of Return that discounts after-tax risk-adjusted cash flows to equal Risk Capital. The Credit RAROC is adjusted for Equity Credit.
Regulatory ROC = ((Revenue - Expected Loss + Equity Credit) * (1 - PNCTaxRate)) / Regulatory Capital
Non-Credit RAROC = (Revenue / Risk Capital) * (1 - PNC Tax Rate)
PNC Tax Rate = 35%.

REDIT:

acility/(Rating)	AfterTax RAROC	Reg.ROC	NPV	Revenue	Expected Loss	Equity Credit	Risk Capital	Reg. Capital
'C Financial(5)	1.40%	0.61%	-$1,637	$875	$1,225	$613	$12,275	$28,000
Credit Totals	1.40%	0.61%	-$1,637	$875	$1,225	$613	$12,275	$28,000
ON-CREDIT:								
Non-Credit Totals	0.00%		$0	$0			$0	
ELATIONSHIP:	1.40%		-$1,637	$875			$12,275	

sumptions Reviewed and Agreed Upon:

lationship Mgr.: Paul Kammarell Credit Officer: ____________

PowerID:
Company: ALLEGHENY INTEGRATED HEALTH GROUP

Borrower Grade: 5

Agency	Rating	Date
KMV EDF		
Standard & Poor's		
Moody's		
ALCAR		
PNC BG*	5	12/22/97

* Denotes Rating used to derive metrics

The after-tax Relationship RAROC is 1.40% for the credit and non-credit business currently being considered. The breakdown of Relationship RAROC follows.

Credit Revenue, Expected Loss, Equity Credit and Regulatory Capital represent Average Annual amounts.
Non-Credit Revenue and Risk Capital represent Projected Year 1 Profit and Operational Risk Capital respectively.
Regulatory Capital is calculated using a simplified template. It should be interpreted as a best approximation.

Credit and Relatshp RAROC =	The Modified Internal Rate of Return that discounts after-tax risk-adjusted cash flows to equal Risk Capital. The Credit RAROC is adjusted for Equity Credit.
Regulatory ROC =	((Revenue - Expected Loss + Equity Credit) * (1 - PNCTaxRate)) / Regulatory Capital
Non-Credit RAROC =	(Revenue / Risk Capital) * (1 - PNC Tax Rate)
PNC Tax Rate =	35%.

CREDIT:

Facility/(Rating)	AfterTax RAROC	Reg.ROC	NPV	Revenue	Expected Loss	Equity Credit	Risk Capital	Reg. Capital
L/C Financial(5)	1.40%	0.61%	-$1,637	$875	$1,225	$613	$12,275	$28,000
Credit Totals	1.40%	0.61%	-$1,637	$875	$1,225	$613	$12,275	$28,000
NON-CREDIT:								
Non-Credit Totals	0.00%		$0	$0			$0	
RELATIONSHIP:	1.40%		-$1,637	$875			$12,275	

PNC30867

PowerID:
Company: ALLEGHENY INTEGRATED HEALTH GROUP

Credit Facilities

	Facility 1		Facility 2		Facility 3	Facility 4	Facility 5
STRUCTURE:							
Type Of Loan	L/C Financial						
Total Commitment	$350,000						
PNC's Share	$350,000						
COLLATERAL:							
Facility Rating	5						
Secured?	No						
Tight Covenants?	No						
Facility-Specific	Market Value	LiqRatio					
Cash							
Other Marketable Sec.							
Accounts Receivable							
Inventory							
Property & Plant							
Equipment							
Guarantee							
Other							
Guarantor							
EBITDA							
Enterprise Multiple							
Funded Non-PNC Debt	-						
Enterprise Value							
Cross-Collateralization	Set 1		Set 2				
Facilities in Set							
	Market Value	LiqRatio	Market Value	LiqRatio			
Cash							
Other Marketable Sec.							
Accounts Receivable							
Inventory							
Property & Plant							
Equipment							
Guarantee							
Other							
Guarantor							
EXPECTED RECOVERY:	65.00%						
FEES: (PNC's Revenue in bp)							
Commitment							
Upfront/Syndications							
Spread/Program							
Annual/Letter of Credit	25.00 bp						
AMORTIZATION & USAGE:							
Original Life > 1 Yr?	No						
	Amort/Reduction	Usage					
Projected Year 1	$350,000	100%					
Projected Year 2							
Projected Year 3							
Projected Year 4							
Projected Year 5							
Projected Year 6							
Projected Year 7							
Projected Year 8							
Projected Year 9							
Projected Year 10							

PNC BANK CORP HEALTHCARE INDUSTRY RISK RATING GRID

	1 Exceptional	2 Excellent	3 Strong	4 Good	5 Acceptable	6 Pass/Watch
S&P Bond Rating (if applicable) (Note: Ranges overlap) (Obligor Criteria)	AAA through AA-	AA- through A-	A- through BBB	BBB through BBB-	BBB- through BB-	The potential risk of loss exceeds normal levels. RM to monitor closely.
Balance Sheet Trends, Ratios and Leverage (Obligor Criteria)	Exceptional balance sheet and financial trends. Ratios and leverage are significantly superior within industry.	Very strong balance sheet and trends. Ratios and leverage are superior within industry.	Strong balance sheet with stable or improving trends. Ratios and leverage are favorable to industry averages.	Balance sheet, ratios and leverage are comparable to industry averages. Trends are generally stable. Sr. Debt/EBITDA < 3.5X.	Financial condition is less favorable than industry averages. Trends may become volatile. Limited liquidity. Sr. Debt/EBITDA > 3.5X.	Financial condition is unfavorable. Events may cause strained liquidity and/or high leverage. Sr. Debt/EBITDA > 4.5X.
Cash Flow Trend & Coverage (Obligor Criteria)	Historic and projected trends are exceptional and stable. Coverage after debt service and other obligations is superior.	Consistent cash flow which easily covers debt service and other obligations.	Cash flow consistent with projections and provides above average coverage of debt service and other obligations.	Cash flow may vary modestly from projections, however, provides adequate coverage of debt service and other obligations. EBITDA/Debt Service > 1.5X.	Cash flow may be inconsistent. Debt service coverage sufficient. Company not strong enough to sustain major setbacks. EBITDA/Debt Service > 1.25X.	Cash flow may be volatile. Vulnerable downturns and unable to absorb setbacks. Erratic performance/profits EBITDA/Debt Service > 1.0X.
Capability of Management (Obligor Criteria)	Superior. Strong management succession team and plan in place.	Strong and stable, with a demonstrated track record in the particular healthcare segment.	Experienced and stable, with a demonstrated track record in the particular healthcare segment.	Reasonably experienced in healthcare field and stable in critical positions.	Generally satisfactory, however, succession management from within the company may be weak.	Management weaknesses may be evident. Poor MIS. Ongoing supervision required by Relationship Manager.
Market Position & Profile of Sales Base (Obligor Criteria)	Market leader with a broad, stable and consistent customer base.	Company has strong utilization/payor mix and dominant market share. Member of strong provider network. Typically 20+ facilities.	Company has above average utilization/payor mix and dominant market share. Member of strong provider network. Typically 10+ facilities.	Company has average utilization/payor mix and strong market share. Member of solid provider network. Typically 5+ facilities.	Referral base and market share weaker than competitors. Geographic and/or payor mix concentration. Member of provider network.	Company is a lower-tier competitor. Not a provider network member. Utilization/payor mix and market share may be deteriorating.
Potential Impact of Changing Economic, Legal, Regulatory or Environmental Conditions (Obligor Criteria)	Limited or no exposure to economic, legal, regulatory or environmental risk.	Limited exposure to economic, legal, regulatory or environmental risk. No material governmental investigations or survey deficiencies.	Slight to average exposure to economic, legal, regulatory or environmental risk. No material governmental investigations or survey deficiencies.	Average exposure to economic, legal, regulatory or environmental risk. No material governmental investigations or survey deficiencies.	No material economic, legal, regulatory or environmental risks exist. No material governmental investigations or survey deficiencies.	Unfavorable reimbursement legislation is likely. Occurrence of governmental investigations or material survey deficiencies.
Ability to Access Capital Markets (Obligor Criteria)	Clearly capable under varying economic conditions.	Ready access.	Normal access.	Normal access.	Alternative financing typically limited to other financial institutions on a secured basis.	Alternative financing limited to financial institutions on a secured and more restrictive basis.
Collateral Support (May over-ride other rating criteria-See Narrative) (Facility Adj. Criteria)	Typically not needed. If primary support, cash or securities under administrative control readily convertible for debt repayment.	If taken, to mitigate risk, of in lieu of acceptable credit risk.	If taken, to mitigate risk, or in lieu of acceptable credit risk.	Collateral provides adequate protection. Covenants may provide additional protection. Revolvers include debt incurrance tests.	Collateral provides adequate protection. Covenants structured to ensure adequate protection. Revolvers include debt incurrance tests.	Collateral coverage may exceed policy advance rates. Covenants structured to provide additional support.
Guarantor Support (May over-ride other rating criteria. See Narrative.) (Facility Adj Criteria)	Not needed.	If taken, to add strength to credit, or in lieu of acceptable credit risk.	If taken, to add strength to credit, or in lieu of acceptable credit risk.	If taken, adds support to credit.	If taken, adds some support to credit.	Guarantor's condition may be deteriorating, limiting support.

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	7 OAEM	8 Substandard	9 Doubtful	10 Loss	Numeric Category Rating	Risk Rating Rationale And Approval(s)
S&P Bond Rating (if applicable) (Note: Ranges overlap) (Obligor Criteria)	OAEM have potential weaknesses which if not corrected may inadequately protect PNC's credit position at some future date.	Substandard assets are inadequately protected by the current sound net worth and paying capacity of the obligor or of the collateral pledged, if any.	Doubtful assets exhibit weaknesses which make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable.	Assets classified loss are considered uncollectible.	N/A	Obligor Name: Allegheny Health Education & Research Foundation. Market: PGH Account #: 2950990 Power ID: 14095
Balance Sheet Trends, Ratios and Leverage (Obligor Criteria)	Balance sheet, ratios and/or leverage are deteriorating resulting in a weakening financial position. Assets written down.	Balance sheet deterioration has resulted in an illiquid, highly leveraged conditioned.	Balance sheet shows significant illiquidity and insolvency.	Insolvent	4	Obligor Rating: 4 Rationale: AHERF has adequate liquidity, very capable management and a strong market position. Operating results, however, have continued to decline, reflecting the declining results of AHERF's obligated groups, most notably the Delaware Valley Obligated Group.
Cash Flow Trend & Coverage (Obligor Criteria)	Cash flow is volatile. Debt service is currently apparent, but weak. Lack of current financial information may contribute to an OAEM rating. Costs are greater than reimbursement rates.	Cash flow may be insufficient to service debt per repayment schedule. Substantial operating losses.	Significant losses and negative cash flow.	None or customer is unwilling to perform.	4	
Capability of Management (Obligor Criteria)	Management weaknesses are evident. Credit requires continual supervision by RM. Recommendation to exit/retain made at SAC.	Management deficiencies likely to exist. Requires continual supervision by RM or Workout Officer. Recommendation to exit/retain made at SAC.	Not applicable.	Not applicable.	3	Facility #: Facility Type: Facility Rating: Rationale: See above.
Market Position & Profile of Sales Base (Obligor Criteria)	Excluded from provider network. Utilization/payor mix, referrals, and market share have deteriorated.	Poor utilization/ payor mix, referral base and market share impair borrower's financial performance.	Typical going concern opinion. Liquidation of business assets or operations highly probable.	Not applicable.	3	
Potential Impact of Changing Economic, Legal, Regulatory or Environmental Conditions (Obligor Criteria)	Economic, legal, regulatory or environmental conditions exist which are likely to impact financial performance. Material governmental investigations or survey deficiencies.	Economic, legal, regulatory or environmental issues exist which impact financial performance. Supply sources, trade creditors and/or sales contracts are affected. Material governmental investigations or license revoked.	Current conditions impact material and/or labor costs which cannot be recovered. Supply sources, trade creditors and/or sales contracts are affected.	Not applicable.	4	Facility # Facility Type: Facility Rating: Rationale:
Ability to Access Capital Markets (Obligor Criteria)	Alternative financing limited to certain banks and Asset Based Lenders.	Alternative financing is unavailable or limited to certain Asset Based Lenders.	Access limited to certain Asset Based Lenders.	Not applicable.	4	Facility #: Facility Type: Facility Rating: Rationale:
Collateral Support (May over-ride other rating criteria-See Narrative) (Facility Adj. Criteria)	Not well controlled or may be subject to deterioration. However, loan is protected by a sound loan agreement with restrictive covenants. Minor covenant violations.	Non-negotiable collateral, originally a secondary repayment source, must be liquidated for repayment. Major covenant violations or documentation exceptions may exit.	Collection or liquidation of debt in full is highly unlikely. Collateral shortfall exists.	Little or no value within a reasonable time period.	N/A	
Guarantor Support (May over-ride other rating criteria. See Narrative.) (Facility Adj. Criteria)	Marginal value.	Insufficient cash flow or lack of debt repayment capacity.	Not of value.	Not applicable.	N/A	RM: Paula Mammarella Phone: 8-3804 Date: 12/16/97

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CREDIT ADMINISTRATION PROCESSED: JAN 3 0 1998
DATE

CREDIT ADMINISTRATION PROCESSED:
DATE

PNC30870

PNC BANK CORP HEALTHCARE INDUSTRY RISK RATING GRID

	1 Exceptional	2 Excellent	3 Strong	4 Good	5 Acceptable	6 Pass/Watch
S&P Bond Rating (If applicable) (Note: Ranges overlap) (Obligor Criteria)	AAA through AA-	AA- through A-	A- through BBB	BBB through BBB-	BBB- through BB-	The potential risk of loss exceeds normal levels. RM to monitor closely.
Balance Sheet Trends, Ratios and Leverage (Obligor Criteria)	Exceptional balance sheet and financial trends. Ratios and leverage are significantly superior within industry.	Very strong balance sheet and trends. Ratios and leverage are superior within industry.	Strong balance sheet with stable or improving trends. Ratios and leverage are favorable to industry averages.	Balance sheet, ratios and leverage are comparable to industry averages. Trends are generally stable. Sr. Debt/EBITDA < 3.5X.	Financial condition is less favorable than industry averages. Trends may become volatile. Limited liquidity. Sr. Debt/EBITDA > 3.5X.	Financial condition is unfavorable. Events may cause strained liquidity and/or high leverage. Sr. Debt/EBITDA > 4.5X.
Cash Flow Trend & Coverage (Obligor Criteria)	Historic and projected trends are exceptional and stable. Coverage after debt service and other obligations is superior.	Consistent cash flow which easily covers debt service and other obligations.	Cash flow consistent with projections and provides above average coverage of debt service and other obligations.	Cash flow may vary modestly from projections, however, provides adequate coverage of debt service and other obligations. EBITDA/Debt Service > 1.5X.	Cash flow may be inconsistent. Debt service coverage sufficient. Company not strong enough to sustain major setbacks. EBITDA/Debt Service > 1.25X.	Cash flow may be volatile. Vulnerable downturns and unable to absorb setbacks. Erratic performance/profits EBITDA/Debt Service > 1.0X.
Capability of Management (Obligor Criteria)	Superior. Strong management succession team and plan in place.	Strong and stable, with a demonstrated track record in the particular healthcare segment.	Experienced and stable, with a demonstrated track record in the particular healthcare segment.	Reasonably experienced in healthcare field and stable in critical positions.	Generally satisfactory, however, succession management from within the company may be weak.	Management weaknesses may be evident. Poor MIS. Ongoing supervision required by Relationship Manager.
Market Position & Profile of Sales Base (Obligor Criteria)	Market leader with a broad, stable and consistent customer base.	Company has strong utilization/payor mix and dominant market share. Member of strong provider network. Typically 20+ facilities.	Company has above average utilization/payor mix and dominant market share. Member of strong provider network. Typically 10+ facilities.	Company has average utilization/payor mix and strong market share. Member of solid provider network. Typically 5+ facilities.	Referral base and market share weaker than competitors. Geographic and/or payor mix concentration. Member of provider network.	Company is a lower-tier competitor. Not a provider network member. Utilization/payor mix and market share may be deteriorating.
Potential Impact of Changing Economic, Legal, Regulatory or Environmental Conditions (Obligor Criteria)	Limited or no exposure to economic, legal, regulatory or environmental risk.	Limited exposure to economic, legal, regulatory or environmental risk. No material governmental investigations or survey deficiencies.	Slight to average exposure to economic, legal, regulatory or environmental risk. No material governmental investigations or survey deficiencies.	Average exposure to economic, legal, regulatory or environmental risk. No material governmental investigations or survey deficiencies.	No material economic, legal, regulatory or environmental risks exist. No material governmental investigations or survey deficiencies.	Unfavorable reimbursement legislation is likely. Occurrence of governmental investigations or material survey deficiencies.
Ability to Access Capital Markets (Obligor Criteria)	Clearly capable under varying economic conditions.	Ready access.	Normal access.	Normal access.	Alternative financing typically limited to other financial institutions on a secured basis.	Alternative financing limited to financial institutions on a secured and more restrictive basis.
Collateral Support (May over-ride other rating criteria-See Narrative) (Facility Adj. Criteria)	Typically not needed. If primary support, cash or securities under administrative control readily convertible for debt repayment.	If taken, to mitigate risk, of in lieu of acceptable credit risk.	If taken, to mitigate risk, or in lieu of acceptable credit risk.	Collateral provides adequate protection. Covenants may provide additional protection. Revolvers include debt incurrance tests.	Collateral provides adequate protection. Covenants structured to ensure adequate protection. Revolvers include debt incurrance tests.	Collateral coverage may exceed policy advance rates. Covenants structured to provide additional support.
Guarantor Support (May over-ride other rating criteria. See Narrative.) (Facility Adj Criteria)	Not needed.	If taken, to add strength to credit, or in lieu of acceptable credit risk.	If taken, to add strength to credit, or in lieu of acceptable credit risk.	If taken, adds support to credit.	If taken, adds some support to credit.	Guarantor's condition may be deteriorating, limiting support.

PNC30871

	7 OAEM	8 Substandard	9 Doubtful	10 Loss	Numeric Category Rating	Risk Rating Rationale And Approval(s)
S&P Bond Rating (if applicable) (Note: Ranges overlap) (Obligor Criteria)	OAEM have potential weaknesses which if not corrected may inadequately protect PNC's credit position at some future date.	Substandard assets are inadequately protected by the current sound net worth and paying capacity of the obligor or of the collateral pledged, if any.	Doubtful assets exhibit weaknesses which make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable.	Assets classified loss are considered uncollectible.	3 or 4? RBB	Obligor Name: Allegheny General Hospital (AGH) Market: PGH Account #: 9128924/9914239 Power ID: 140975
Balance Sheet Trends, Ratios and Leverage (Obligor Criteria)	Balance sheet, ratios and/or leverage are deteriorating resulting in a weakening financial position. Assets written down.	Balance sheet deterioration has resulted in an illiquid, highly leveraged conditioned.	Balance sheet shows significant illiquidity and insolvency.	Insolvent	5	Obligor Rating: 3 Rationale: This is a confirmation of AGH's risk rating. The S&P downgrade of the Pennsylvania Higher Educational Facility Authority's health care revenue bond series 1991A, issued to AGH, to single "A" from "A+" essentially brings that rating in line with the Moody's rating of an "A2," which translates to a "2" in the PNC Bank risk rating grid. AGH is a clinical leader in the western Pennsylvania market and its financial condition and operating performance are continuing to remain steady or show improvement.
Cash Flow Trend & Coverage (Obligor Criteria)	Cash flow is volatile. Debt service is currently apparent, but weak. Lack of current financial information may contribute to an OAEM rating. Costs are greater than reimbursement rates.	Cash flow may be insufficient to service debt per repayment schedule. Substantial operating losses.	Significant losses and negative cash flow.	None or customer is unwilling to perform.	4	
Capability of Management (Obligor Criteria)	Management weaknesses are evident. Credit requires continual supervision by RM. Recommendation to exit/retain made at SAC.	Management deficiencies likely to exist. Requires continual supervision by RM or Workout Officer. Recommendation to exit/retain made at SAC.	Not applicable.	Not applicable.	3	Facility #: 9128924-90035 Facility Type: L/C ($26.9MM net) Facility Rating: 3 Rationale: See above.
Market Position & Profile of Sales Base (Obligor Criteria)	Excluded from provider network. Utilization/payor mix, referrals, and market share have deteriorated.	Poor utilization/ payor mix, referral base and market share impair borrower's financial performance.	Typical going concern opinion. Liquidation of business assets or operations highly probable.	Not applicable.	2	
Potential Impact of Changing Economic, Legal, Regulatory or Environmental Conditions (Obligor Criteria)	Economic, legal, regulatory or environmental conditions exist which are likely to impact financial performance. Material governmental investigations or survey deficiencies.	Economic, legal, regulatory or environmental issues exist which impact financial performance. Supply sources, trade creditors and/or sales contracts are affected. Material governmental investigations or license revoked.	Current conditions impact material and/or labor costs which cannot be recovered. Supply sources, trade creditors and/or sales contracts are affected.	Not applicable.	4	Facility # 9128924-90027 Facility Type: L/C ($150,000) Facility Rating: 3 Rationale: See above.
Ability to Access Capital Markets (Obligor Criteria)	Alternative financing limited to certain banks and Asset Based Lenders.	Alternative financing is unavailable or limited to certain Asset Based Lenders.	Access limited to certain Asset Based Lenders.	Not applicable.	3	Facility #: 9914239-90019 Facility Type: L/C ($32.7MM net) Facility Rating: 3 Rationale: See above.
Collateral Support (May over-ride other rating criteria-See Narrative) (Facility Adj. Criteria)	Not well controlled or may be subject to deterioration. However, loan is protected by a sound loan agreement with restrictive covenants. Minor covenant violations.	Non-negotiable collateral, originally a secondary repayment source, must be liquidated for repayment. Major covenant violations or documentation exceptions may exit.	Collection or liquidation of debt in full is highly unlikely. Collateral shortfall exists.	Little or no value within a reasonable time period.	N/A	
Guarantor Support (May over-ride other rating criteria. See Narrative.) (Facility Adj. Criteria)	Marginal value.	Insufficient cash flow or lack of debt repayment capacity.	Not of value.	Not applicable.	N/A	RM: Paula Mammarella Phone: 8-3804 Date: 12/16/97

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CREDIT ADMINISTRATION PROCESSED: JAN 30 1998
DATE

PNC30872

PNC BANK CORP HEALTHCARE INDUSTRY RISK RATING GRID

	1 Exceptional	2 Excellent	3 Strong	4 Good	5 Acceptable	6 Pass/Watch
S&P Bond Rating (If applicable) (Note: Ranges overlap) (Obligor Criteria)	AAA through AA-	AA- through A-	A- through BBB	BBB through BBB-	BBB- through BB-	The potential risk of loss exceeds normal levels. RM to monitor closely.
Balance Sheet Trends, Ratios and Leverage (Obligor Criteria)	Exceptional balance sheet and financial trends. Ratios and leverage are significantly superior within industry.	Very strong balance sheet and trends. Ratios and leverage are superior within industry.	Strong balance sheet with stable or improving trends. Ratios and leverage are favorable to industry averages.	Balance sheet, ratios and leverage are comparable to industry averages. Trends are generally stable. Sr. Debt/EBITDA < 3.5X.	Financial condition is less favorable than industry averages. Trends may become volatile. Limited liquidity. Sr. Debt/EBITDA > 3.5X.	Financial condition is unfavorable. Events may cause strained liquidity and/or high leverage. Sr. Debt/EBITDA > 4.5X.
Cash Flow Trend & Coverage (Obligor Criteria)	Historic and projected trends are exceptional and stable. Coverage after debt service and other obligations is superior.	Consistent cash flow which easily covers debt service and other obligations.	Cash flow consistent with projections and provides above average coverage of debt service and other obligations.	Cash flow may vary modestly from projections, however, provides adequate coverage of debt service and other obligations. EBITDA/Debt Service > 1.5X.	Cash flow may be inconsistent. Debt service coverage sufficient. Company not strong enough to sustain major setbacks. EBITDA/Debt Service > 1.25X.	Cash flow may be volatile. Vulnerable downturns and unable to absorb setbacks. Erratic performance/profits EBITDA/Debt Service > 1.0X.
Capability of Management (Obligor Criteria)	Superior. Strong management succession team and plan in place.	Strong and stable, with a demonstrated track record in the particular healthcare segment.	Experienced and stable, with a demonstrated track record in the particular healthcare segment.	Reasonably experienced in healthcare field and stable in critical positions.	Generally satisfactory, however, succession management from within the company may be weak.	Management weaknesses may be evident. Poor MIS. Ongoing supervision required by Relationship Manager.
Market Position & Profile of Sales Base (Obligor Criteria)	Market leader with a broad, stable and consistent customer base.	Company has strong utilization/payor mix and dominant market share. Member of strong provider network. Typically 20+ facilities.	Company has above average utilization/payor mix and dominant market share. Member of strong provider network. Typically 10+ facilities.	Company has average utilization/payor mix and strong market share. Member of solid provider network. Typically 5+ facilities.	Referral base and market share weaker than competitors. Geographic and/or payor mix concentration. Member of provider network.	Company is a lower-tier competitor. Not a provider network member. Utilization/payor mix and market share may be deteriorating.
Potential Impact of Changing Economic, Legal, Regulatory or Environmental Conditions (Obligor Criteria)	Limited or no exposure to economic, legal, regulatory or environmental risk.	Limited exposure to economic, legal, regulatory or environmental risk. No material governmental investigations or survey deficiencies.	Slight to average exposure to economic, legal, regulatory or environmental risk. No material governmental investigations or survey deficiencies.	Average exposure to economic, legal, regulatory or environmental risk. No material governmental investigations or survey deficiencies.	No material economic, legal, regulatory or environmental risks exist. No material governmental investigations or survey deficiencies.	Unfavorable reimbursement legislation is likely. Occurrence of governmental investigations or material survey deficiencies.
Ability to Access Capital Markets (Obligor Criteria)	Clearly capable under varying economic conditions.	Ready access.	Normal access.	Normal access.	Alternative financing typically limited to other financial institutions on a secured basis.	Alternative financing limited to financial institutions on a secured and more restrictive basis.
Collateral Support (May over-ride other rating criteria-See Narrative) (Facility Adj. Criteria)	Typically not needed. If primary support, cash or securities under administrative control readily convertible for debt repayment.	If taken, to mitigate risk, of in lieu of acceptable credit risk.	If taken, to mitigate risk, or in lieu of acceptable credit risk.	Collateral provides adequate protection. Covenants may provide additional protection. Revolvers include debt incurrance tests.	Collateral provides adequate protection. Covenants structured to ensure adequate protection. Revolvers include debt incurrance tests.	Collateral coverage may exceed policy advance rates. Covenants structured to provide additional support.
Guarantor Support (May over-ride other rating criteria. See Narrative.) (Facility Adj Criteria)	Not needed.	If taken, to add strength to credit, or in lieu of acceptable credit risk.	If taken, to add strength to credit, or in lieu of acceptable credit risk.	If taken, adds support to credit.	If taken, adds some support to credit.	Guarantor's condition may be deteriorating, limiting support.

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PNC30873

	7 OAEM	8 Substandard	9 Doubtful	10 Loss	Numeric Category Rating	Risk Rating Rationale And Approval(s)
S&P Bond Rating (If applicable) (Note: Ranges overlap) (Obligor Criteria)	OAEM have potential weaknesses which if not corrected may inadequately protect PNC's credit position at some future date.	Substandard assets are inadequately protected by the current sound net worth and paying capacity of the obligor or of the collateral pledged, if any.	Doubtful assets exhibit weaknesses which make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable.	Assets classified loss are considered uncollectible.	3	Obligor Name: Allegheny University Medical Centers (AUMC) Market: PGH Account #: 9713824 Power ID: 140973
Balance Sheet Trends, Ratios and Leverage (Obligor Criteria)	Balance sheet, ratios and/or leverage are deteriorating resulting in a weakening financial position. Assets written down.	Balance sheet deterioration has resulted in an illiquid, highly leveraged conditioned.	Balance sheet shows significant illiquidity and insolvency.	Insolvent	4	Obligor Rating: 4 Rationale: Although there is no history for AUMC, the entities which were consolidated into AUMC have combined to create an adequate balance sheet and strong cash flow/coverages. Given the affiliation with AHERF management, additional comfort is provided.
Cash Flow Trend & Coverage (Obligor Criteria)	Cash flow is volatile. Debt service is currently apparent, but weak. Lack of current financial information may contribute to an OAEM rating. Costs are greater than reimbursement rates.	Cash flow may be insufficient to service debt per repayment schedule. Substantial operating losses.	Significant losses and negative cash flow.	None or customer is unwilling to perform.	3	
Capability of Management (Obligor Criteria)	Management weaknesses are evident. Credit requires continual supervision by RM. Recommendation to exit/retain made at SAC.	Management deficiencies likely to exist. Requires continual supervision by RM or Workout Officer. Recommendation to exit/retain made at SAC.	Not applicable.	Not applicable.	4	Facility #: All Facility Type: L/C ($1.4MM) Facility Rating: 4 Rationale: See above.
Market Position & Profile of Sales Base (Obligor Criteria)	Excluded from provider network. Utilization/payor mix, referrals, and market share have deteriorated.	Poor utilization/ payor mix, referral base and market share impair borrower's financial performance.	Typical going concern opinion. Liquidation of business assets or operations highly probable.	Not applicable.	2	
Potential Impact of Changing Economic, Legal, Regulatory or Environmental Conditions (Obligor Criteria)	Economic, legal, regulatory or environmental conditions exist which are likely to impact financial performance. Material governmental investigations or survey deficiencies.	Economic, legal, regulatory or environmental issues exist which impact financial performance. Supply sources, trade creditors and/or sales contracts are affected. Material governmental investigations or license revoked.	Current conditions impact material and/or labor costs which cannot be recovered. Supply sources, trade creditors and/or sales contracts are affected.	Not applicable.	5	Facility # Facility Type: Facility Rating: Rationale: See above.
Ability to Access Capital Markets (Obligor Criteria)	Alternative financing limited to certain banks and Asset Based Lenders.	Alternative financing is unavailable or limited to certain Asset Based Lenders.	Access limited to certain Asset Based Lenders.	Not applicable.	4	Facility #: Facility Type: Facility Rating: Rationale: See above.
Collateral Support (May over-ride other rating criteria-See Narrative) (Facility Adj. Criteria)	Not well controlled or may be subject to deterioration. However, loan is protected by a sound loan agreement with restrictive covenants. Minor covenant violations.	Non-negotiable collateral, originally a secondary repayment source, must be liquidated for repayment. Major covenant violations or documentation exceptions may exit.	Collection or liquidation of debt in full is highly unlikely. Collateral shortfall exists.	Little or no value within a reasonable time period.	N/A	
Guarantor Support (May over-ride other rating criteria. See Narrative.) (Facility Adj. Criteria)	Marginal value.	Insufficient cash flow or lack of debt repayment capacity.	Not of value.	Not applicable.	N/A	RM: Paula Mammarella Phone: 8-3804 Date: 12/16/97

CREDIT ADMINISTRATION PROCESSED: JAN 3 0 1998
DATE

PNC30874

PNC BANK CORP HEALTHCARE INDUSTRY RISK RATING GRID

	1 Exceptional	2 Excellent	3 Strong	4 Good	5 Acceptable	6 Pass/Watch
S&P Bond Rating (if applicable) (Note: Ranges overlap) (Obligor Criteria)	AAA through AA-	AA- through A-	A- through BBB	BBB through BBB-	BBB- through BB-	The potential risk of loss exceeds normal levels. RM to monitor closely.
Balance Sheet Trends, Ratios and Leverage (Obligor Criteria)	Exceptional balance sheet and financial trends. Ratios and leverage are significantly superior within Industry.	Very strong balance sheet and trends. Ratios and leverage are superior within Industry.	Strong balance sheet with stable or improving trends. Ratios and leverage are favorable to industry averages.	Balance sheet, ratios and leverage are comparable to industry averages. Trends are generally stable. Sr. Debt/EBITDA < 3.5X.	Financial condition is less favorable than industry averages. Trends may become volatile. Limited liquidity. Sr. Debt/EBITDA > 3.5X.	Financial condition is unfavorable. Events may cause strained liquidity and/or high leverage. Sr. Debt/EBITDA > 4.5X.
Cash Flow Trend & Coverage (Obligor Criteria)	Historic and projected trends are exceptional and stable. Coverage after debt service and other obligations is superior.	Consistent cash flow which easily covers debt service and other obligations.	Cash flow consistent with projections and provides above average coverage of debt service and other obligations.	Cash flow may vary modestly from projections, however, provides adequate coverage of debt service and other obligations. EBITDA/Debt Service > 1.5X.	Cash flow may be inconsistent. Debt service coverage sufficient. Company not strong enough to sustain major setbacks. EBITDA/Debt Service > 1.25X.	Cash flow may be volatile. Vulnerable downturns and unable to absorb setbacks. Erratic performance/profits EBITDA/Debt Service > 1.0X.
Capability of Management (Obligor Criteria)	Superior. Strong management succession team and plan in place.	Strong and stable, with a demonstrated track record in the particular healthcare segment.	Experienced and stable, with a demonstrated track record in the particular healthcare segment.	Reasonably experienced in healthcare field and stable in critical positions.	Generally satisfactory, however, succession management from within the company may be weak.	Management weaknesses may be evident. Poor MIS. Ongoing supervision required by Relationship Manager.
Market Position & Profile of Sales Base (Obligor Criteria)	Market leader with a broad, stable and consistent customer base.	Company has strong utilization/payor mix and dominant market share. Member of strong provider network. Typically 20+ facilities.	Company has above average utilization/payor mix and dominant market share. Member of strong provider network. Typically 10+ facilities.	Company has average utilization/payor mix and strong market share. Member of solid provider network. Typically 5+ facilities.	Referral base and market share weaker than competitors. Geographic and/or payor mix concentration. Member of provider network.	Company is a lower-tier competitor. Not a provider network member. Utilization/payor mix and market share may be deteriorating.
Potential Impact of Changing Economic, Legal, Regulatory or Environmental Conditions (Obligor Criteria)	Limited or no exposure to economic, legal, regulatory or environmental risk.	Limited exposure to economic, legal, regulatory or environmental risk. No material governmental investigations or survey deficiencies.	Slight to average exposure to economic, legal, regulatory or environmental risk. No material governmental investigations or survey deficiencies.	Average exposure to economic, legal, regulatory or environmental risk. No material governmental investigations or survey deficiencies.	No material economic, legal, regulatory or environmental risks exist. No material governmental investigations or survey deficiencies.	Unfavorable reimbursement legislation is likely. Occurrence of governmental investigations or material survey deficiencies.
Ability to Access Capital Markets (Obligor Criteria)	Clearly capable under varying economic conditions.	Ready access.	Normal access.	Normal access.	Alternative financing typically limited to other financial institutions on a secured basis.	Alternative financing limited to financial institutions on a secured and more restrictive basis.
Collateral Support (May over-ride other rating criteria-See Narrative) (Facility Adj. Criteria)	Typically not needed. If primary support, cash or securities under administrative control readily convertible for debt repayment.	If taken, to mitigate risk, of in lieu of acceptable credit risk.	If taken, to mitigate risk, or in lieu of acceptable credit risk.	Collateral provides adequate protection. Covenants may provide additional protection. Revolvers include debt incurrence tests.	Collateral provides adequate protection. Covenants structured to ensure adequate protection. Revolvers include debt incurrence tests.	Collateral coverage may exceed policy advance rates. Covenants structured to provide additional support.
Guarantor Support (May over-ride other rating criteria. See Narrative.) (Facility Adj Criteria)	Not needed.	If taken, to add strength to credit, or in lieu of acceptable credit risk.	If taken, to add strength to credit, or in lieu of acceptable credit risk.	If taken, adds support to credit.	If taken, adds some support to credit.	Guarantor's condition may be deteriorating, limiting support.

PNC30875

	7 OAEM	8 Substandard	9 Doubtful	10 Loss	Numeric Category Rating	Risk Rating Rationale And Approval(s)
S&P Bond Rating (if applicable) (Note: Ranges overlap) (Obligor Criteria)	OAEM have potential weaknesses which if not corrected may inadequately protect PNC's credit position at some future date.	Substandard assets are inadequately protected by the current sound net worth and paying capacity of the obligor or of the collateral pledged, if any.	Doubtful assets exhibit weaknesses which make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable.	Assets classified loss are considered uncollectible.	N/A	Obligor Name: The Delaware Valley Obligated Group (DVOG). Market: Phila Account #: 9415261 Power ID: 14095 (AHERF)
Balance Sheet Trends, Ratios and Leverage (Obligor Criteria)	Balance sheet, ratios and/or leverage are deteriorating resulting in a weakening financial position. Assets written down.	Balance sheet deterioration has resulted in an illiquid, highly leveraged conditioned.	Balance sheet shows significant illiquidity and insolvency.	Insolvent	5	Obligor Rating: 5 Rationale: This is a downgrade of the DVOG's risk rating. Operating performance for the entire group continues to be increasingly negative. While improvements are being make through restructurings, much more is needed. S&P's downgrade of the Pennsylvania Higher Educational Facility Authority's health care revenue bond series 1991A, issued to AGH was mostly due to the transfer of funds from AGH to support Allegheny Integrated Health Group (AIHG), a DVOG member. This entity lost $61.0 million for FY97, an increase over the last FYE's loss of $41.0 million, mounting concern in the analysts' viewpoint is due to expectation that AGH may need to continue to help fund future losses. Therefore, liquidity is being constrained.
Cash Flow Trend & Coverage (Obligor Criteria)	Cash flow is volatile. Debt service is currently apparent, but weak. Lack of current financial information may contribute to an OAEM rating. Costs are greater than reimbursement rates.	Cash flow may be insufficient to service debt per repayment schedule. Substantial operating losses.	Significant losses and negative cash flow.	None or customer is unwilling to perform.	5	
Capability of Management (Obligor Criteria)	Management weaknesses are evident. Credit requires continual supervision by RM. Recommendation to exit/retain made at SAC.	Management deficiencies likely to exist. Requires continual supervision by RM or Workout Officer. Recommendation to exit/retain made at SAC.	Not applicable.	Not applicable.	3	Facility #: 9415261-90019 Facility Type: L/C ($41.1MM net) Facility Rating: 5 Rationale: See above.
Market Position & Profile of Sales Base (Obligor Criteria)	Excluded from provider network. Utilization/payor mix, referrals, and market share have deteriorated.	Poor utilization/ payor mix, referral base and market share impair borrower's financial performance.	Typical going concern opinion. Liquidation of business assets or operations highly probable.	Not applicable.	4	
Potential Impact of Changing Economic, Legal, Regulatory or Environmental Conditions (Obligor Criteria)	Economic, legal, regulatory or environmental conditions exist which are likely to impact financial performance. Material governmental investigations or survey deficiencies.	Economic, legal, regulatory or environmental issues exist which impact financial performance. Supply sources, trade creditors and/or sales contracts are affected. Material governmental investigations or license revoked.	Current conditions impact material and/or labor costs which cannot be recovered. Supply sources, trade creditors and/or sales contracts are affected.	Not applicable.	4	Facility # 9415261-90027 Facility Type: L/C ($43.9MM net) Facility Rating: 5 Rationale: See above.
Ability to Access Capital Markets (Obligor Criteria)	Alternative financing limited to certain banks and Asset Based Lenders.	Alternative financing is unavailable or limited to certain Asset Based Lenders.	Access limited to certain Asset Based Lenders.	Not applicable.	5	Facility #: Facility Type: Facility Rating: Rationale: See above.
Collateral Support (May over-ride other rating criteria-See Narrative) (Facility Adj. Criteria)	Not well controlled or may be subject to deterioration. However, loan is protected by a sound loan agreement with restrictive covenants. Minor covenant violations.	Non-negotiable collateral, originally a secondary repayment source, must be liquidated for repayment. Major covenant violations or documentation exceptions may exit.	Collection or liquidation of debt in full is highly unlikely. Collateral shortfall exists.	Little or no value within a reasonable time period.	N/A	
Guarantor Support (May over-ride other rating criteria. See Narrative.) (Facility Adj. Criteria)	Marginal value.	Insufficient cash flow or lack of debt repayment capacity.	Not of value.	Not applicable.	N/A	RM: Paula Mammarella Phone: 8-3804 Date: 12/16/97

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CREDIT ADMINISTRATION PROCESSED JAN 30 1998

PNC30876

PNC BANK CORP HEALTHCARE INDUSTRY RISK RATING GRID

	1 Exceptional	2 Excellent	3 Strong	4 Good	5 Acceptable	6 Pass/Watch
S&P Bond Rating (If applicable) (Note: Ranges overlap) (Obligor Criteria)	AAA through AA-	AA- through A-	A- through BBB	BBB through BBB-	BBB- through BB-	The potential risk of loss exceeds normal levels. RM to monitor closely.
Balance Sheet Trends, Ratios and Leverage (Obligor Criteria)	Exceptional balance sheet and financial trends. Ratios and leverage are significantly superior within industry.	Very strong balance sheet and trends. Ratios and leverage are superior within industry.	Strong balance sheet with stable or improving trends. Ratios and leverage are favorable to industry averages.	Balance sheet, ratios and leverage are comparable to industry averages. Trends are generally stable. Sr. Debt/EBITDA < 3.5X.	Financial condition is less favorable than industry averages. Trends may become volatile. Limited liquidity. Sr. Debt/EBITDA > 3.5X.	Financial condition is unfavorable. Events may cause strained liquidity and/or high leverage. Sr. Debt/EBITDA > 4.5X.
Cash Flow Trend & Coverage (Obligor Criteria)	Historic and projected trends are exceptional and stable. Coverage after debt service and other obligations is superior.	Consistent cash flow which easily covers debt service and other obligations.	Cash flow consistent with projections and provides above average coverage of debt service and other obligations.	Cash flow may vary modestly from projections, however, provides adequate coverage of debt service and other obligations. EBITDA/Debt Service > 1.5X.	Cash flow may be inconsistent. Debt service coverage sufficient. Company not strong enough to sustain major setbacks. EBITDA/Debt Service > 1.25X.	Cash flow may be volatile. Vulnerable downturns and unable to absorb setbacks. Erratic performance/profits EBITDA/Debt Service > 1.0X.
Capability of Management (Obligor Criteria)	Superior. Strong management succession team and plan in place.	Strong and stable, with a demonstrated track record in the particular healthcare segment.	Experienced and stable, with a demonstrated track record in the particular healthcare segment.	Reasonably experienced in healthcare field and stable in critical positions.	Generally satisfactory, however, succession management from within the company may be weak.	Management weaknesses may be evident. Poor MIS. Ongoing supervision required by Relationship Manager.
Market Position & Profile of Sales Base (Obligor Criteria)	Market leader with a broad, stable and consistent customer base.	Company has strong utilization/payor mix and dominant market share. Member of strong provider network. Typically 20+ facilities.	Company has above average utilization/payor mix and dominant market share. Member of strong provider network. Typically 10+ facilities.	Company has average utilization/payor mix and strong market share. Member of solid provider network. Typically 5+ facilities.	Referral base and market share weaker than competitors. Geographic and/or payor mix concentration. Member of provider network.	Company is a lower-tier competitor. Not a provider network member. Utilization/payor mix and market share may be deteriorating.
Potential Impact of Changing Economic, Legal, Regulatory or Environmental Conditions (Obligor Criteria)	Limited or no exposure to economic, legal, regulatory or environmental risk.	Limited exposure to economic, legal, regulatory or environmental risk. No material governmental investigations or survey deficiencies.	Slight to average exposure to economic, legal, regulatory or environmental risk. No material governmental investigations or survey deficiencies.	Average exposure to economic, legal, regulatory or environmental risk. No material governmental investigations or survey deficiencies.	No material economic, legal, regulatory or environmental risks exist. No material governmental investigations or survey deficiencies.	Unfavorable reimbursement legislation is likely. Occurrence of governmental investigations or material survey deficiencies.
Ability to Access Capital Markets (Obligor Criteria)	Clearly capable under varying economic conditions.	Ready access.	Normal access.	Normal access.	Alternative financing typically limited to other financial institutions on a secured basis.	Alternative financing limited to financial institutions on a secured and more restrictive basis.
Collateral Support (May over-ride other rating criteria-See Narrative) (Facility Adj. Criteria)	Typically not needed. If primary support, cash or securities under administrative control readily convertible for debt repayment.	If taken, to mitigate risk, of in lieu of acceptable credit risk.	If taken, to mitigate risk, or in lieu of acceptable credit risk.	Collateral provides adequate protection. Covenants may provide additional protection. Revolvers include debt incurrance tests.	Collateral provides adequate protection. Covenants structured to ensure adequate protection. Revolvers include debt incurrance tests.	Collateral coverage may exceed policy advance rates. Covenants structured to provide additional support.
Guarantor Support (May over-ride other rating criteria. See Narrative.) (Facility Adj Criteria)	Not needed.	If taken, to add strength to credit, or in lieu of acceptable credit risk.	If taken, to add strength to credit, or in lieu of acceptable credit risk.	If taken, adds support to credit.	If taken, adds some support to credit.	Guarantor's condition may be deteriorating, limiting support.

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	7 OAEM	8 Substandard	9 Doubtful	10 Loss	Numeric Category Rating	Risk Rating Rationale And Approval(s)
S&P Bond Rating (If applicable) (Note: Ranges overlap) (Obligor Criteria)	OAEM have potential weaknesses which if not corrected may inadequately protect PNC's credit position at some future date.	Substandard assets are inadequately protected by the current sound net worth and paying capacity of the obligor or of the collateral pledged, if any.	Doubtful assets exhibit weaknesses which make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable.	Assets classified loss are considered uncollectible.	N/A	Obligor Name: Allegheny University of the Health Sciences Market: PGH Account #: 9133512 Power ID: 14095 (AHERF)
Balance Sheet Trends, Ratios and Leverage (Obligor Criteria)	Balance sheet, ratios and/or leverage are deteriorating resulting in a weakening financial position. Assets written down.	Balance sheet deterioration has resulted in an illiquid, highly leveraged conditioned.	Balance sheet shows significant illiquidity and insolvency.	Insolvent	5	Obligor Rating: 5 Rationale: AUHS' financial condition is acceptable considering the academic nature of the operations and its affiliation with AHERF.
Cash Flow Trend & Coverage (Obligor Criteria)	Cash flow is volatile. Debt service is currently apparent, but weak. Lack of current financial information may contribute to an OAEM rating. Costs are greater than reimbursement rates.	Cash flow may be insufficient to service debt per repayment schedule. Substantial operating losses.	Significant losses and negative cash flow.	None or customer is unwilling to perform.	5	
Capability of Management (Obligor Criteria)	Management weaknesses are evident. Credit requires continual supervision by RM. Recommendation to exit/retain made at SAC.	Management deficiencies likely to exist. Requires continual supervision by RM or Workout Officer. Recommendation to exit/retain made at SAC.	Not applicable.	Not applicable.	3	Facility #: 90027 Facility Type: Letter of Credit Facility Rating: 5 Rationale: See above.
Market Position & Profile of Sales Base (Obligor Criteria)	Excluded from provider network. Utilization/payor mix, referrals, and market share have deteriorated.	Poor utilization/ payor mix, referral base and market share impair borrower's financial performance.	Typical going concern opinion. Liquidation of business assets or operations highly probable.	Not applicable.	N/A	
Potential Impact of Changing Economic, Legal, Regulatory or Environmental Conditions (Obligor Criteria)	Economic, legal, regulatory or environmental conditions exist which are likely to impact financial performance. Material governmental investigations or survey deficiencies.	Economic, legal, regulatory or environmental issues exist which impact financial performance. Supply sources, trade creditors and/or sales contracts are affected. Material governmental investigations or license revoked.	Current conditions impact material and/or labor costs which cannot be recovered. Supply sources, trade creditors and/or sales contracts are affected.	Not applicable.	4	Facility # Facility Type: Facility Rating: Rationale:
Ability to Access Capital Markets (Obligor Criteria)	Alternative financing limited to certain banks and Asset Based Lenders.	Alternative financing is unavailable or limited to certain Asset Based Lenders.	Access limited to certain Asset Based Lenders.	Not applicable.	4	Facility #: Facility Type: Facility Rating: Rationale:
Collateral Support (May over-ride other rating criteria-See Narrative) (Facility Adj. Criteria)	Not well controlled or may be subject to deterioration. However, loan is protected by a sound loan agreement with restrictive covenants. Minor covenant violations.	Non-negotiable collateral, originally a secondary repayment source, must be liquidated for repayment. Major covenant violations or documentation exceptions may exit.	Collection or liquidation of debt in full is highly unlikely. Collateral shortfall exists.	Little or no value within a reasonable time period.	N/A	
Guarantor Support (May over-ride other rating criteria. See Narrative.) (Facility Adj. Criteria)	Marginal value.	Insufficient cash flow or lack of debt repayment capacity.	Not of value.	Not applicable.	N/A	RM: Paula Mammarella Phone: 8-3804 Date: 12/16/97

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JAN 30 1998

CREDIT ADMINISTRATION PROCESSED: ____
DATE

PNC30878

PNC BANK CORP HEALTHCARE INDUSTRY RISK RATING GRID

	1 Exceptional	2 Excellent	3 Strong	4 Good	5 Acceptable	6 Pass/Watch
S&P Bond Rating (If applicable) (Note: Ranges overlap) (Obligor Criteria)	AAA through AA-	AA- through A-	A- through BBB	BBB through BBB-	BBB- through BB-	The potential risk of loss exceeds normal levels. RM to monitor closely.
Balance Sheet Trends, Ratios and Leverage (Obligor Criteria)	Exceptional balance sheet and financial trends. Ratios and leverage are significantly superior within industry.	Very strong balance sheet and trends. Ratios and leverage are superior within industry.	Strong balance sheet with stable or improving trends. Ratios and leverage are favorable to industry averages.	Balance sheet, ratios and leverage are comparable to industry averages. Trends are generally stable. Sr. Debt/EBITDA < 3.5X.	Financial condition is less favorable than industry averages. Trends may become volatile. Limited liquidity. Sr. Debt/EBITDA > 3.5X.	Financial condition is unfavorable. Events may cause strained liquidity and/or high leverage. Sr. Debt/EBITDA > 4.5X.
Cash Flow Trend & Coverage (Obligor Criteria)	Historic and projected trends are exceptional and stable. Coverage after debt service and other obligations is superior.	Consistent cash flow which easily covers debt service and other obligations.	Cash flow consistent with projections and provides above average coverage of debt service and other obligations.	Cash flow may vary modestly from projections, however, provides adequate coverage of debt service and other obligations. EBITDA/Debt Service > 1.5X.	Cash flow may be inconsistent. Debt service coverage sufficient. Company not strong enough to sustain major setbacks. EBITDA/Debt Service > 1.25X.	Cash flow may be volatile. Vulnerable downturns and unable to absorb setbacks. Erratic performance/profits EBITDA/Debt Service > 1.0X.
Capability of Management (Obligor Criteria)	Superior. Strong management succession team and plan in place.	Strong and stable, with a demonstrated track record in the particular healthcare segment.	Experienced and stable, with a demonstrated track record in the particular healthcare segment.	Reasonably experienced in healthcare field and stable in critical positions.	Generally satisfactory, however, succession management from within the company may be weak.	Management weaknesses may be evident. Poor MIS. Ongoing supervision required by Relationship Manager.
Market Position & Profile of Sales Base (Obligor Criteria)	Market leader with a broad, stable and consistent customer base.	Company has strong utilization/payor mix and dominant market share. Member of strong provider network. Typically 20+ facilities.	Company has above average utilization/payor mix and dominant market share. Member of strong provider network. Typically 10+ facilities.	Company has average utilization/payor mix and strong market share. Member of solid provider network. Typically 5+ facilities.	Referral base and market share weaker than competitors. Geographic and/or payor mix concentration. Member of provider network.	Company is a lower-tier competitor. Not a provider network member. Utilization/payor mix and market share may be deteriorating.
Potential Impact of Changing Economic, Legal, Regulatory or Environmental Conditions (Obligor Criteria)	Limited or no exposure to economic, legal, regulatory or environmental risk.	Limited exposure to economic, legal, regulatory or environmental risk. No material governmental investigations or survey deficiencies.	Slight to average exposure to economic, legal, regulatory or environmental risk. No material governmental investigations or survey deficiencies.	Average exposure to economic, legal, regulatory or environmental risk. No material governmental investigations or survey deficiencies.	No material economic, legal, regulatory or environmental risks exist. No material governmental investigations or survey deficiencies.	Unfavorable reimbursement legislation is likely. Occurrence of governmental investigations or material survey deficiencies.
Ability to Access Capital Markets (Obligor Criteria)	Clearly capable under varying economic conditions.	Ready access.	Normal access.	Normal access.	Alternative financing typically limited to other financial institutions on a secured basis.	Alternative financing limited to financial institutions on a secured and more restrictive basis.
Collateral Support (May over-ride other rating criteria-See Narrative) (Facility Adj. Criteria)	Typically not needed. If primary support, cash or securities under administrative control readily convertible for debt repayment.	If taken, to mitigate risk, of in lieu of acceptable credit risk.	If taken, to mitigate risk, or in lieu of acceptable credit risk.	Collateral provides adequate protection. Covenants may provide additional protection. Revolvers include debt incurrance tests.	Collateral provides adequate protection. Covenants structured to ensure adequate protection. Revolvers include debt incurrance tests.	Collateral coverage may exceed policy advance rates. Covenants structured to provide additional support.
Guarantor Support (May over-ride other rating criteria. See Narrative.) (Facility Adj Criteria)	Not needed.	If taken, to add strength to credit, or in lieu of acceptable credit risk.	If taken, to add strength to credit, or in lieu of acceptable credit risk.	If taken, adds support to credit.	If taken, adds some support to credit.	Guarantor's condition may be deteriorating, limiting support.

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	7 OAEM	8 Substandard	9 Doubtful	10 Loss	Numeric Category Rating	Risk Rating Rationale And Approval(s)
S&P Bond Rating (if applicable) (Note: Ranges overlap) (Obligor Criteria)	OAEM have potential weaknesses which if not corrected may inadequately protect PNC's credit position at some future date.	Substandard assets are inadequately protected by the current sound net worth and paying capacity of the obligor or of the collateral pledged, if any.	Doubtful assets exhibit weaknesses which make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable.	Assets classified loss are considered uncollectible.	N/A	Obligor Name: Allegheny Integrated Health Group (AIHG) Market: PGH/PHILA Account #: 9442366 Power ID: 140975 (AHERF)
Balance Sheet Trends, Ratios and Leverage (Obligor Criteria)	Balance sheet, ratios and/or leverage are deteriorating resulting in a weakening financial position. Assets written down.	Balance sheet deterioration has resulted in an illiquid, highly leveraged conditioned.	Balance sheet shows significant illiquidity and insolvency.	Insolvent	5	Obligor Rating: 5 Rationale: AIHG is a part of the AHERF entity and its operations have been supported by the AHERF affiliates.
Cash Flow Trend & Coverage (Obligor Criteria)	Cash flow is volatile. Debt service is currently apparent, but weak. Lack of current financial information may contribute to an OAEM rating. Costs are greater than reimbursement rates.	Cash flow may be insufficient to service debt per repayment schedule. Substantial operating losses.	Significant losses and negative cash flow.	None or customer is unwilling to perform.	6	
Capability of Management (Obligor Criteria)	Management weaknesses are evident. Credit requires continual supervision by RM. Recommendation to exit/retain made at SAC.	Management deficiencies likely to exist. Requires continual supervision by RM or Workout Officer. Recommendation to exit/retain made at SAC.	Not applicable.	Not applicable.	4	Facility #: 9442366-90019 Facility Type: $350,000 L/C Facility Rating: 1 Rationale: The letter of credit is cash collateralized by a certificate of deposit issued by PNC Bank, N.A.
Market Position & Profile of Sales Base (Obligor Criteria)	Excluded from provider network. Utilization/payor mix, referrals, and market share have deteriorated.	Poor utilization/ payor mix, referral base and market share impair borrower's financial performance.	Typical going concern opinion. Liquidation of business assets or operations highly probable.	Not applicable.	N/A	
Potential Impact of Changing Economic, Legal, Regulatory or Environmental Conditions (Obligor Criteria)	Economic, legal, regulatory or environmental conditions exist which are likely to impact financial performance. Material governmental investigations or survey deficiencies.	Economic, legal, regulatory or environmental issues exist which impact financial performance. Supply sources, trade creditors and/or sales contracts are affected. Material governmental investigations or license revoked.	Current conditions impact material and/or labor costs which cannot be recovered. Supply sources, trade creditors and/or sales contracts are affected.	Not applicable.	4	Facility #: Facility Type: Facility Rating: Rationale:
Ability to Access Capital Markets (Obligor Criteria)	Alternative financing limited to certain banks and Asset Based Lenders.	Alternative financing is unavailable or limited to certain Asset Based Lenders.	Access limited to certain Asset Based Lenders.	Not applicable.	5	Facility #: Facility Type: Facility Rating: Rationale:
Collateral Support (May over-ride other rating criteria-See Narrative) (Facility Adj. Criteria)	Not well controlled or may be subject to deterioration. However, loan is protected by a sound loan agreement with restrictive covenants. Minor covenant violations.	Non-negotiable collateral, originally a secondary repayment source, must be liquidated for repayment. Major covenant violations or documentation exceptions may exit.	Collection or liquidation of debt in full is highly unlikely. Collateral shortfall exists.	Little or no value within a reasonable time period.	1	
Guarantor Support (May over-ride other rating criteria. See Narrative.) (Facility Adj. Criteria)	Marginal value.	Insufficient cash flow or lack of debt repayment capacity.	Not of value.	Not applicable.	N/A	RM:Paula A. Mammarella Phone: x83804 Date: 12/22/97

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CREDIT ADMINISTRATION PROCESSED: JAN 30 1998
DATE

PNC30880

Company Name: Allegheny General Hospital

Prepared By: Paula Mammarella / Brian Camp

Date Prepared: 12/18/97

		YES	NO	N/A
I.	MANAGEMENT POLICY:			
1.	Does the exposure to this company cause the Director's Portfolio Limit ($1.9 billion) to be exceeded? (Section I.A.) If yes, does transaction have the appropriate prior approval from PNC's Board of Directors?		X	
2.	Does the exposure to this company cause any of the following limits to be exceeded? a. Market Management Limit (Section II.A.) b. Healthcare Segment Limit (Section II.B.) c. "Other" Healthcare or Managed Care Limit (Section II.C.)		X	
3.	Does the transaction involve acquisition financing for a managed care company who is not the dominant insurer in its service area and has a total long term debt to capitalization ratio in excess of 25%? (Section II.D.)		X	
4.	Does the transaction include term exposure to a stand-alone (non-affiliated) rural hospital? (Section II.E.)		X	
5.	If the Company (acute, specialty or long term) is outside of a PNC primary market area, is it a multiple facility operator that can be considered national in scope or a major regional provider? (Section II.F.)			X
6.	Do loan maturities and amortization or letter of credit maturities exceed policy? (Section II.G.)		X	
7.	If extending term exposure, does the borrower have an upper tier industry position? (Section II.G.)	X		
8.	Is the transaction in substantial compliance with Underwriting Standards? (Section II.H.) (To be completed by Chief Credit Policy Officer or designee)	X		
9.	If Direct Hard is $2.0 million or greater, has the transaction been approved by the Industry Manager? (Section II. I.)	X		
II. A.	UNDERWRITING STANDARDS: ACUTE CARE			
1.	Does the provider have a good competitive position? (Section IV.C.1.)	X		

	Above	Average	Below
a. Market Share for Key Services	X		
b. Good Utilization Statistics & Trends		X	
c. Full Array of Services		X	
d. Management and Board Qualifications		X	
e. Balance Between Primary, Specialty & Groups		X	

		YES	NO	N/A
2.	Does the provider maintain good relationships with primary care physicians as well as the rest of the staff? (Section IV.C.2.)	X		
3.	Does the provider's cost structure and payor statistics compare favorably with its peer group? (Section IV.C.3.)	X		

PNC30881

4. Does the provider meet 3 of 5 f[illegible]cial criteria: (Section IV.C.4.) X

	Value @ 6/30/97
a. Cushion Ratio* ≥ 5x	8.6x
b. Long Term Debt/Capitalization Ratio* ≤ 60%	49.8%
c. Excess Margin* ≥ 1%	2.6%
d. Debt Service Coverage* > 1.5x	2.78x
e. Cash+Mkt Sec+Board Des Funds/LTD ≥ 50%	68.8%

Total Management Policy Exceptions 0

Total Underwriting Standards Exceptions 0

*** All financial ratios are defined in the policy**

N/A - Not Applicable

PNC30882

The Sanwa Bank Limited

NEW YORK BRANCH
PARK AVENUE PLAZA
55 EAST 52ND STREET • NEW YORK, N.Y. 10055

TELEX NUMBER
RCA 232423

TELEPHONE
(212) 339-6300

December 19, 1997

Ms. Marcie D. Knittel, Vice President
PNC Bank, N.A.
One PNC Plaza
249 Fifth Avenue
Pittsburgh, Pennsylvania 15222

Re: Allegheny General Hospital

Dear Ms. Knittel:

This is to confirm our telephone conversation in which I indicated that the New York Branch of The Sanwa Bank, Limited, has received approval from our headquarters in Tokyo to provide a one-year extension of the $12,881,365 participation into the letter of credit of PNC Bank, subject to duly authorized and executed documentation extending the PNC Bank letter of credit, and the Participation Agreement between PNC Bank and Sanwa, on terms mutually satisfactory to PNC Bank and Sanwa.

With best regards. Have a very Merry Christmas.

Very truly yours,

Bart Wu

P. Bartlett Wu,
Vice President and Manager

cc: Ms. Paula A. Mammarella

PNC30883

PBW#7\MDK1219.ltr

DEC-19-1997 10:56 PNC Bank TREASURY MGMT. 412 762 6264 P.02/03

[illegible] SERVICES EXPOSURE FORM

PURPOSE

- ☐ New
- ☐ Incremental
- ☑ Reallocation
- ☐ Renewal

VERIFICATION BY OPERATIONAL CREDIT RISK SERVICES

Lending Authority Verified by ______ on ______

Input in ACIS by ______ on ______

Verified in ACIS by ______ on ______

GENERAL INFORMATION

COMPANY NAME: Allegheny University Med Center	PARENT COMPANY: AHERF
Cost Center: 857	Lead Market: PGH
☐ REFUND (MUST BE APPROVED BY RISK MANAGEMENT)	
Date form Completed: 12/18/97	☐ INTERNAL PNC ACCOUNT (Must be confirmed as A PNC Internal Account by sending an Office Vision to PPG7716 Attach response confirmation to form
Treasury Management Officer: Trautman	Telephone #: 7051
Relationship Manager:	Telephone #:

SECTION I - ACH Operational Services Profile of Exposure

Application (Check only one per line)	Offset DDA Account #	Peak Dollar Amount	Current Dollar Amount Limit (DAL)	New Dollar Amount Limit (DAL) to be Input in ACIS	ACH Exposure Limit*
☑ Credit ☐ Debit ☐ Cash Con	2431808	$ 1,321,983	$ 1,500,000	$ 1,500,000	$ 1,500,000
☐ Credit ☐ Debit ☐ Cash Con		$	$	$	$
☐ Credit ☐ Debit ☐ Cash Con		$	$	$	$
☐ Credit ☐ Debit ☐ Cash Con		$	$	$	$

*ACH EXPOSURE LIMIT CALCULATION

Credit = DAL x 1.0 Debit = DAL x 2.0 x .05 Cash Con = DAL x 2.0 Internal PNC Account = DAL x 0.0

SECTION II - Calculation of ACH Operational Services Exposure

ACH EXPOSURE	=$
Unallocated Guidance Amount	+$
TOTAL ACH OPERATIONAL SERVICES EXPOSURE	=$
Previously Approved Exposure Limit	-$
(Date Approved: / /)	
INCREMENTAL APPROVAL AMOUNT	=$

Note: <$150,000 may be approved by an RM with sufficient unsecured lending authority regardless of MRE

Revised 6/30/97

PNC30884

DEC-19-1997 10:56 PNC Bank TREASURY MGMT. 412 762 6264 P.03/03

M:EVANS\4MIKE/OSEF2.SAM

ACH OPERATIONAL SERVICES EXPOSURE FORM

COMPANY NAME ______________________

SECTION III: APPROVALS

Obligor Rating:	Date of Rating:	Commercial Loans	Power IDs	Total DHE	Total DSE	Total MRE
	/ /			$	$	$

A. Exposure Facility Approval Method (✓)

☐ Incremental Approval (Increase < $250,000)	☐ Individual Authority (Unsecured Lending Authority must be Equal to or higher than Exposure Limit)	☐ Memo Approval Date: / /	☐ Committee Presentation (Attach a copy of the signed & dat Credit Information Sheet)

B. Facility Structure (✓)

☐ Secured	☐ Unsecured	☐ Guaranteed by:

C. Approval Signatures

Relationship Manager:

Signature: Paula A. Mammarella

Typed Name: PAULA A. MAMMARELLA

Date Approved: 12 / 22 / 97

*Operational Services Exposure Forms without sufficient approval signatures will be returned to the Relationship Manager unprocessed.

Other Approving Officer(s)*:

Signature: C. David Cook

Typed Name: C. DAVID COOK

Title: SVP.

DCO, MSCO, Credit Exec, etc.
(This information is needed to verify that approval signatures are equal to or higher than the Exposure Limit requested.)

Date Approved: 1 / 20 / 98

Signature: ______________________

Typed Name: ______________________

Title: ______________________

DCO, MSCO, Credit Exec, etc.
(This information is needed to verify that approval signatures are equal to or higher than the Exposure Limit requested.)

Date Approved: / /

D. Date of Next Review*

Date: 12 / 22 / 98 *This date must correlate with the renewal date of the Credit Facility

Allegheny Health, Education and Research Foundation (AHERF)
Pittsburgh, PA

S&P / Moody's Ratings:	Allegheny General Hospital -	A / A2*
	Graduate Health System (Delaware Valley) -	BB / Ba2*
	Forbes Health System (Allegheny Univ. Med. Center) -	A- / A3
	* Moody's Watch for possible downgrade	

1. Credit Issues (See Offering):

- Consolidation in the acute care industry has led to the realization of economies of scale, with respect to purchasing and contracting for the delivery of care to some population segments. Ultimately, the surviving integrated systems will secure greater economic leverage to negotiate favorable contracts with managed care organizations and suppliers. As a result, the industry has become more efficient and the majority of hospitals' management companies have successfully controlled their supply excesses. The industry remains labor intensive, with payroll and benefits costs representing, on average, more than 50% of total expenses. *(See Section 4)*

- In the Pittsburgh healthcare market, focus is on the near-monopoly status of a single insurer, and on the risks associated with hospitals' high percentage of Medicare business. Blue Cross of Western Pennsylvania/Highmark, which dominates the Pittsburgh market, has weakened providers' negotiating strength, while recent losses at Blue Cross/Highmark increase the likelihood of further downward pressure. An unexpectedly rapid transition of the Medicare enrollees to managed care over the last year has taken numerous hospitals by surprise, leaving them to grapple with broad changes in reimbursement practices for this population. Because Blue Cross's strategy for the future is still undefined and because the competition has not yet penetrated a major segment of the market, uncertainty exists in outlooks. *(See Section 4)*

- In the Philadelphia health care provider market, one of the most volatile in the nation, there exists a severe surplus of bed capacity and a pool of providers reluctant to consolidate. Profit margins at Philadelphia's hospitals are swinging downward, as providers compete for limited patient revenues, and major payors add influence to their pricing negotiations. *(See Section 4)*

- AHERF is reporting an operating loss of $111.0 million. This loss is 29.1% greater than in FY96, and appears to be trending negatively. Nonoperating income is again responsible for profitability before extraordinary items. At 6/30/97, 64.7% of nonoperating income was comprised of investment income. Going forward, the Company is budgeting a 53.0% increase in Net Revenues to offset a 60.5% decrease in Investment Income, resulting in a 57.7% increase in Net Income. *(See Section 6&7)*

- Allegheny General Hospital (AGH) had a 9.0% increase in net patient revenues in FY97 (excluding Allegheny Singer Research Institute - ASRI - in FY96) largely as a result of increases in admissions as reimbursement per patient continues to trend downward. S,W&B decreased as a percentage of revenues to 43.26%. Improvements were not sufficient to contribute to positive operating results, as AGH lost $9.7 million in operating income in FY97, while contributing approximately $16.7 million and $94,000 to AUHS and ASRI, respectively, to subsidize teaching and research shortfalls. In addition, AGH transferred $35.3 million to AIHG for support (transfer shows up in unrestricted net assets). This transfer-out from AGH is offset by $43.9 million transfer-in from AIHG that is largely goodwill and should not continue going forward. *(See Section 6)*

- The individual hospitals of the Delaware Valley group are currently experiencing staff reductions to offset an AHERF reported $6.0 million decrease in reimbursement. Overcapacity can also be singled out for the current market situation. Going forward, continued deterioration in payment rates and cost increases associated with infrastructure maintenance (leasing costs) and nonpatient related costs (insurance) are budgeted to put pressure on profitability, partially mitigated by increased admissions due to growth in market share largely from previously acquired physician practices. *(See Section 4, 5 & 6)*

- Allegheny Integrated Health Group, going forward, is budgeting a $33.6 million loss in FY98, an improvement from a loss of $61.4 million in FY97. The projected improvement should result from revised physician incentives, detailed audits of the billing process, and business plan analysis before any significant changes in practices. *(See Section 6 & Exhibit 4)*

- Liquidity in the Delaware Valley group was tight with $57.1 million outstanding under the AHERF line and receivables days of 77, partially offset by cash and short term investments of $20.5 million. *(See Section 6)*

PNC30886

- Due to the recent downgrades in reference to Allegheny General Hospital and Delaware Valley debt, access to tax preferred borrowing has been diminished, particularly in the Delaware Valley where in debt rating has dropped into the junk range. Allegheny Valley recently received a downgrade by S&P, and is currently under "watch" by Moody's for a further downgrade. The most recent downgrade by S&P brings its' rating in line with the current Moody's rating. A further Moody's downgrade could signal further downward movement in the S&P rating, resulting in continued pressure on liquidity. *(See Section 6)*

- Although excessive covenants on a letter of credit may be unrealistic, we should attempt to limit transfers between the affiliates particularly when there are substantial operating loss in those affiliates. *(See Section 9)*

- AHERF has formed a specialized group in its' Information Systems area to address Year 2000 compliance. The company does not anticipates compliance problems.

2. <u>Organizational Structure / Ownership:</u>

- Allegheny Health, Education and Research Foundation (AHERF) is a non-profit company and the largest health system in Pennsylvania, with major operations in Pittsburgh and Philadelphia. AHERF's goal is to consolidate and integrate these operations into a statewide, and eventually a regional integrated health system.

- AHERF is the parent company of Allegheny General Hospital (AGH); Allegheny University Medical Centers (AUMC); Allegheny University of the Health Sciences (AUHS); Allegheny University Hospitals (AUH); Allegheny Hospitals, Centennial (AH-Centennial); Allegheny Hospitals, New Jersey (AH-New Jersey); St. Christopher's Hospital for Children (St. Christopher's); Diversified Health Group, Inc. (DHG); Allegheny Integrated Health Group (AIHG) and Allegheny Health Services Providers Insurance Company (AHSPIC). *(Refer to Exhibit 1)*

- AGH, AUMC, AUHS, AUH, AH-Centennial, AH-New Jersey, St. Christopher's and AIHG are Pennsylvania nonprofit charitable organizations. AIHG has over 75% primary care physicians, located largely (2/3) in the Delaware Valley area. DHG is a for-profit organization mainly comprised of the corporate jet, is wholly owned by AHERF. AHSPIC is a captive insurance company incorporated in the Cayman Islands, which is also wholly owned by AHERF.

- For external debt reporting purposes, AHERF presents certain financial information by various obligated groups. *(Refer to Exhibit 2)*

- AHERF has a 33% ownership interest in Gateway Health Plan, L.P. (Gateway), a managed care program for individuals on Medical Assistance. AHERF's share of income from its Gateway investment for fiscal year 1997 was $2.2 million.

- In FY97, the Forbes Health System (FHS) and Allegheny Valley Health System (AVH) became part of AUMC via mergers, effective January 1, 1997 and March 1, 1997, respectively. Also, during FY97, former Graduate Health System hospitals (Graduate Hospitals, Mt. Sinai Hospital, City Avenue Hospital and Parkview Hospital) became part of AH-Centennial and Rancocas Hospitals became part of AH-New Jersey via mergers, effective 5/1/97.

- During FY97, AHERF purchased one of the largest physician practice groups (along with certain physician practice assets) in the Pittsburgh region, commonly referred to as Penn Group Medical Associates, from Coventry Corporation, which is the owner of HealthAmerica Pennsylvania, Inc. (HealthAmerica). As a result of this acquisition, 76 physicians were added to the AHERF System. In addition AHERF and HealthAmerica entered into a risk-sharing arrangement whereby AHERF receives certain premium levels to cover the treatment HealthAmerica subscribers receive from AHERF-affiliated physicians. At the time of the acquisition, AHERF assessed and recorded reserves of $5.0 million for estimated amounts where costs will exceed premium revenues under this contract.

- Subsequently, in July 1997, Canonsburg General Hospital (CGH) became part of AUMC via a statutory merger. CGH joins FHS and AVH as members of AUMC. CGH is a 120 bed facility with 92 acute-care beds and 28 skilled nursing/sub acute beds.

3. <u>Products and Services:</u>

- AHERF's operations (through its nonprofit subsidiaries) consist of twelve acute care hospitals facilities, one psychiatric hospital, a pediatric hospital, a medical school, undergraduate and graduate schools of health sciences and humanities, a research institute, and physician practices.

- AHERF has agreements with various third-party payors to provide medical services to subscribing participants. Under these agreements, AHERF receives monthly capitation payments based on the number of participants, regardless if services are performed by AHERF. In addition, certain third-party payors make fee-for-service payments to AHERF for certain covered services based upon discounted fee schedules.

4. Industry Risks:

- On 8/5/97, the Balanced Budget Act of 1997 was passed which contained provisions which will be phased in over the next five years. The changes include: (1) The creation of new service options for Medicare beneficiaries through "Medicare + Choice" and will permit the establishment of Provider Sponsored Organizations; (2) Establishment of a Prospective Payment System with varying implementation dates; (3) Other provisions are expected to reduce teaching physician reimbursement an limit inflationary increases; and (4) A national bipartisan commission on the future of Medicare has been established to make recommendations to Congress on future changes.

- HealthChoices, the Commonwealth of Pennsylvania program which mandates the enrollment of Medical Assistance recipient into managed care, was implemented in 2/97. Public concern over access issues, as well as, the sufficiency of the program funding has resulted in legislative and judicial challenges to HealthChoices. In response to these challenges, the Department of Public Welfare has deferred the 7/1/97 mandated enrollment date for the chronic and disabled population and is required tc validate the actuarial soundness of HealthChoices financial plan.

- The acute care industry remains the focal point of health services, despite steady pricing pressures. Hospital care represents the largest single share of the healthcare pie, accounting for more than 35% of total national healthcare outlays. The approximately 6,700 facilities are divided between non-profits (85%) and for-profits (15%). Key drivers to demand remain the aging of the population and technological advances.

- The number of hospital and hospital beds continues to decline. In fiscal 1996, community hospitals posted a 1.3% decline in facilities and 2.3% fewer hospital beds. Every inpatient volume indicator waned as well. In contrast, the number of outpatient visits rose at a 6.3% clip in FY96 and by 40.5% over the past decade. The number of surgical procedures continues to advance, in part reflecting the shift to outpatient services. Most community hospital beds are operated in mid-sized facilities, those with 200-300 beds. Both very small and very large hospitals have registered the most significant capacity declines.

- Consolidation has led to the realization of economies of scale, with respect to purchasing and contracting for the delivery of care to some population segments. Ultimately, the surviving integrated systems will secure greater economic leverage to negotiate favorable contracts with managed care organizations and suppliers. As a result, the industry has become more efficient and the majority of hospitals management companies have successfully controlled their supply excesses. The industry remains labor intensive, with payroll and benefits costs representing, on average, more than 50% of total expenses.

- In the Pittsburgh healthcare market, focus is on the near-monopoly status of a single insurer, and on the risks associated with hospitals' high percentage of Medicare business. Blue Cross of Western Pennsylvania/Highmark, which dominates the Pittsburgh market, has weakened providers' negotiating strength, while recent losses at Blue Cross/Highmark increase the likelihood of further downward pressure. An unexpectedly rapid transition of the Medicare enrollees to managed care over the last year has taken numerous hospitals by surprise, leaving them to grapple with broad changes in reimbursement practices for this population. Because Blue Cross's strategy for the future is still undefined and because the competition has not yet penetrated a major segment of the market, uncertainty exists in outlooks.

- In the Philadelphia health care provider market, one of the most volatile in the nation, there exists a severe surplus of bed capacity and a pool of providers reluctant to consolidate. Profit margins at Philadelphia's hospitals are swinging downward, as providers compete for limited patient revenues, and major payors add influence to their pricing negotiations.

5. Competition:

- Strategically, AHERF's plan is to continue developing an integrated delivery system centered around an expanding network of primary care physicians and certain choice specialists. Such plan also focuses on decreasing costs, increasing service levels and increasing patient, student and staff satisfaction. It is mainly through the success of physician practice acquisitions, along with forming a network of hospital organizations either through acquisitions or affiliations, that AHERF will be measured.

- The Pittsburgh market is quickly consolidating into provider networks/delivery systems. Industry analysts are predicting that three or four networks/systems will evolve within the next few years. Currently, there are two major provider systems already in place. One of the two, The Pyramid Health System consists of AGH, Allegheny Valley Hospital and Forbes Health System, amongst others. The other, Tri-State Network, is a seven hospital group anchored by UPMC. The Pittsburgh market can be

generally characterized as over-supplied with physicians. However, the market is experiencing aggressive recruitment of primary care physicians by hospital providers and Blue Cross/Highmark.

- Refer to Peer Chart in Exhibit #6. In comparison of AGH to peers in the Pittsburgh market; Salary, Wage and Benefit as a percentage of revenues is low, EBITDA margin was approximately 240 bps beneath the peer average, and Debt-to-Cap exceeded the average by 430 bps. UPMC is the leading provider of healthcare services in the Pittsburgh market and plans to maintain its position through acquisitions and affiliations, similar to AHERF.

- In general, the Delaware Valley area is over bedded and highly competitive. As managed-care penetration continues to reduce inpatient stays, cost containment and consolidation pressures have continued to grow for area hospitals. Hospitals need to control costs, provide a continuum of care and cover a broad geographic area to be attractive to both consumers and third party payors in a managed care environment. Local insurers currently have a significant negotiating leverage with hospitals due to market conditions, and are expected to continue to force reimbursement rates down on an inflation adjusted basis.

- AHERF operated the third largest hospital system in the Philadelphia area, based on revenues, trailing Jefferson Health System and The University of Pennsylvania Health System.

- Refer to Exhibit #7. Competition in the Philadelphia market is more varied and intense than in the Pittsburgh market. In FY98, St. Christopher's Hospital for Children is to encounter loss of market share due to the opening of Temple Children's Hospital. Additionally, the market competition is evidenced by deteriorating payment rates and contraction of the market resulting from utilizations controls imposed by managed care.

6. Operating Performance / Financial Condition / Cash Flow (Refer to Exhibit 4):
((The consolidating cash flow statement provided for analysis show transfers to/from affiliates as an aggregate number.))

AHERF CONSOLIDATED

- Total Operating Revenues are up 27.0% to $1.9 billion, on increases in both Net Patient Revenues (26.0%) and Other Operating Revenues (35.8%). The improvement was primarily driven by increased revenue contributions from the DVOG, AIHG, and AGH (all detailed below). S,W&B Expense as a percentage of revenues decreased to 61.8%, as the combined Companies focused on the reduction of expenses to offset reimbursement pressures. Despite the S,W&B improvement, G&A (consisting of Materials, Supplies and Services) as a percentage of Revenues increased to a high of 36.4%. AHERF, in cooperation with Allegiance (formerly Baxter Health Care Corporation) and Siemens, is in the process of standardizing patient care supplies and equipment in an effort to reduce costs. In addition, continued development of critical pathways defining optimal sequencing and timing of patient interventions (i.e. services) thereby reducing variations in the provision of care, facilitating expected outcomes, reducing lengths of stay and improving cost effectiveness will continue to take place for current, as well as newly acquired AHERF hospitals.

- Due to the above mentioned factors coupled with an increase in depreciation, Income from Operations remained in the negative at $111.0 million. This operating loss is 29.1% greater than in FY96, and appears to be trending negatively. Non-operating income is again responsible for profitability before extraordinary items. Non-operating income at 6/30/97 is comprised of investment income ($86.0 million) and net assets released from restrictions ($47.2). Going forward, the Company does not expect as large a benefit from investment income as enjoyed in FY97.

- Liquidity was strained for the consolidated entity consisting of $435.6 million in cash, short-term investments, and Board Designated Funds, $42.9 million available under the $100.0 million line for working capital purposes, and access to bond financing (diminishing). Access to the capital markets has been limited by the recent downgrades of Allegheny Hospital and particularly the sub-investment grade debt rating in the Delaware Valley. Receivables Days improved to 79 at 6/30/97, but Cash+Marketable Securities+Board Designated Funds was inadequate to cover LTD at 0.44x. Going forward, liquidity improvements should be closely tied to improvements in receivables turnover and improved profitability of AIHG.

- Leverage at FYE97 was high at 63.6% due to the acquisitions creating AUMC and additional debt brought on by the hospital additions to AH-Centennial and AH-New Jersey. When operating leases are included in the calculation, leverage becomes 69.7%. Leverage should improve going forward due to scheduled debt repayment and earnings retention. Draws on the $100.0 million line of credit were up to $57.1 million (outstandings in Delaware Valley), largely due to receivables.

- Consolidated AHERF EBITDA improved 17.0% to $168.0 million due to the absence of extraordinary items and increased non-operating income. This improvement aided in the corresponding improvement of debt service (3.57x) and fixed charge (1.05x) coverages. Historically, EBITDA was not adequate to cover fixed charges, with the excess being funded by increases in long term debt or use of cash on hand.

- Cash Flow from Operations improved 119.0% to $79.0 million due to improved operating performance, a negative change in Unrestricted Net Assets, decreased non-cash items, and to a marginal extent increased depreciation. CFO was able to cover current year CMLTD plus 38.9% of CAPEX. The shortfall was primarily covered by decreases in Net Assets Limited or Restricted as to Use of $45.8 million and Proceeds from the Sale of Property and Equipment of $34.1 million. CFO in FY98 is projected to cover total cash uses at 1.4x.

AGH OBLIGATED GROUP

- Allegheny General Hospital (AGH) had a 9.0% increase in net patient revenues in FY97 (excluding Allegheny Singer Research Institute - ASRI - in FY96) largely as a result of increases in admissions as reimbursement per patient continues to trend downward. Medical / Surgical admissions were up 9.9%. along with a 22.1% increase in Post-Acute Care admissions, these along with other increases were partially offset by a 19.7% decrease in Pediatrics admissions. S,W&B decreased as a percentage of revenues, testament to Management's success in controlling this expense and desire to improve operating profitability. These improvements were not sufficient to contribute to positive operating results, as AGH lost $9.7 million in operating income in FY97, while contributing $16.65 million and $94,000 to AUHS and ASRI, respectively, to subsidize teaching and research shortfalls. In addition, AGH transferred $35.3 million to AIHG for support (transfer shows up in unrestricted net assets). The $35.3 million transfer consisted of $6.3 million for capital, $11.0 million for operations, and $18.0 million for the PGMA (HealthAmerica physicians) purchase. This transfer-out from AGH is offset by $43.9 million transfer-in from AIHG that is largely goodwill and should not continue going forward.

- Liquidity was adequate, evidenced by $7.9 million in cash and short term investments, and $164.2 million in Board Designated. In addition there was availability of $42.9 million under the revolving facility shared amongst AHERF. Historically, a majority of the draws have been in the Delaware Valley which could limit availability to AGH. Leverage was moderate at FYE97, measured at 49.8% compared to 53.7% at FYE96. The improvement was primarily a result of debt paydown and improved profitability.

- Allegheny General Hospital's EBITDA improved 5.1% to $55.7 million in FY97. Likewise, EBITDA was more than adequate to cover debt service (at 2.78x) and fixed charges (1.69x). The primary reason for the improvement in cash flow is the hospital increase in admissions and the large amounts of non-operating income.

Interim Period Ended 9/30/97 - AGH

- Net Patient Revenues in 1Q98 increased 3.7% to $116.4 million. when compared to 1Q97, primarily as a result of increased admissions and improved occupancy (95.6%). S,W&B as a percentage of revenues increased to 49.2% coupling with an increase in depreciation, resulted in operating income declining to a negative $3.9 million. Investment Income of $4.7 million would have provided enough to create positive net results, but the $4.5 million support paid to AUHS led the hospital to a net loss of $3.5 million. In addition to the net loss, AGH transferred $2.5 million to AIHG and an additional $250,000 to AUHS. Liquidity remained adequate with $8.0 million in cash and equivalents, and $168.4 million in board designated funds. Leverage was moderate at 49.8% at 1QE98, remaining flat when compared against 49.8% at FYE97.

AUMC

- Allegheny University Medical Center (AUMC) is a newly formed subsidiary of AHERF, designed to evolve into a community hospital system, increasing referrals. AUMC revenues of $105.0 million were comprised 72% of Forbes Hospital (FH) patient service revenue, and 28% of Allegheny Valley Hospital (AVH) patient service revenue. Salary, wages and fringe benefits comprised 52.3% and 46.3% of FH and AVH revenues, respectively. AUMC earned $12.4 million in operating income and benefited from $6.9 million in investment income to reach a net income of $20.1 million. Cost containment in this division is to be achieved through development of clinical pathways and improvements to the focused cash management approach, resulting in reduced length of stay and inpatient ancillary usage (i.e. reduced medical / surgical costs).

- Detail on the $8.0 million transfer (net) from Unrestricted Net Assets not provided.

- Liquidity at 6/30/97 appears adequate, evidenced by $8.7 million in cash. Leverage was high at 88.0%, largely representing the $75.9 million in long term debt acquired with FH and limited amount of Unrestricted Net Assets.

- EBITDA of $22.4 million provided adequate coverage of debt service at 3.12x, and fixed charges at 1.98x. Going forward, with a full year of revenue additions and the addition of Canonsburg Hospital, coverage should improve.

DVOG

- Revenues at the Delaware Valley Obligated Group improved in FY97, 5.1% to $1.2 billion, while Salary, Wage and Fringe Benefits % declined to 61.8%. Comparing FY96 to FY97, net admissions are up 4.0% which partially offset a $15.3 million loss at the Allegheny University of the Health Sciences, ultimately resulting in improved profitability. The net admissions increase was largely made up of a 7.1% increase in medical / surgical admissions, and a 6.0% increase in pediatrics admissions, primarily attributed to physician practice purchases.

- Payor mix continues to shift from Medicare/Medicaid to Managed Care in FY97 at 29.3%, an increase from 19.8% in FY96. This shift in payor mix is anticipated to continue and, is characteristic of the Delaware Valley market.

- The individual hospitals of the Delaware group are currently experiencing staff reductions to offset an AHERF reported $6.0 million decrease in reimbursement. Also contributing to this reduction was overcapacity. Going forward, continued deterioration in payment rates and cost increases associated with infrastructure maintenance (leasing costs) and nonpatient activity related costs (insurance) are budgeted to put pressure on profitability, partially mitigated by increased admissions due to growth in market share.

- Improvements in efficiencies, cost containment and increased market share through referrals (per AHERF) are the strategic direction in the Delaware Valley (DV). Currently referral rates in AIHG are around 35%, going forward the Company will focus on increasing this number to drive admissions, while focusing in cost reduction and realizing efficiencies.

- Liquidity was tight with $57.1 million outstanding under the AHERF line and receivables days of 77 (mentioned below), partially offset by cash and short term investments of $20.5 million. Leverage is high, but improving, at 68.0%. The reduction in leverage is largely a function of earnings retention.

- Accounts receivables days continued to decline from the recorded high of 184 days at 1/31/96 to 77 days at 6/30/97. The improvement comes as DVOG converts to a common information system, centralizing from Philadelphia to Pittsburgh. To date, the Company has realized all efficiencies in relation to the centralization but continues to address processes and systems in an attempt to reduce days to an ideal mid-to-upper 60s. The DV is characterized by slow third party payors, to a greater extent than in the western part the state, and this condition is expected to worsen going forward due to industry factors such as HealthChoices (refer to section 10).

- Delaware Valley's EBITDA improved marginally to $105.2 million, providing Debt Service Coverage of 2.83x. Fixed charges were covered at 1.19x. Debt service coverage actually decreased from 3.77x in FY96, to 2.83x in FY97 due to increases in CMLTD, outpacing the increase in EBITDA or the decrease in interest expense. The trend in fixed coverage was unidentifiable due to the absence of a Company provided Cash Flow Statement for FY96.

<u>Other - AIGH</u>

- Although not one of our obligors, Allegheny Integrated Health Group (AIHG) experienced a $61.4 million loss in FY97, following a $40.8 million loss in FY96, which negatively impacted AHERF's results. This group contains the physicians acquired to increase admissions through referrals (currently around 35% referral rate). Approximately upwards of 75% of these physicians are located in the Delaware Valley area. For corrective measures going forward, see Exhibit 3.

- Liquidity was poor with cash and short term investments totaled $1.3 million, up from $480,000 at FYE96. Leverage was very high with $113,000 in LTD and a negative Unrestricted Net Assets of $25.1 million.

<u>7. Projections (See Exhibit #8):</u>

<u>((* Per the Company, budgeted acquisitions of additional physician practices have been, for the large part, put on hold))</u>

<u>AHERF CONSOLIDATED</u>

- AHERF Consolidated is budgeting a 53.0% increase in net revenues in FY98, driven by an 58.8% increase in Patient Revenues and 23.6% increase in Research and Training Revenues. The increase in Patient Revenues can largely be explained by budgeted admission increases, while increases in Research and Training Revenues is primarily explained by growth associated with faculty recruitment and a full year of Pittsburgh Campus operations (AUHS). Salary, Wages and Benefit Expense and Materials, Supplies and Services are slated to increase 31.7% and 73.9%, respectively. Operating Loss of $29.5 million is budgeted reflecting primarily significant improvements in operating profitability at AIHG. Flowthrough from above, partially offset by decreases in Investment Income and Assets Released from Restrictions, resulted in Net Profitability of $34.6 million (a 57.7% increase from FY97).

- Liquidity was adequate with $15.2 million in Cash and Short-term Investments and $37.0 million available on the line of credit. Leverage was high at 62.0%, but improved as a result of a $22.5 million decrease in LTD and a $36.5 million increase in Unrestricted Net Assets largely due to improved profitability.

<u>AGHOG</u>

- Inpatient acute admissions are expected to increase, largely due to recent additions to the primary care physician network (Penn Group Medical Associates). Outpatient activity is to expand over 10%, while support to AUHS is to increase approximately $4.5 million. Investment income is budgeted to decrease $4.3 million as a result of nonrecurring gains in FY97. Operating Expenses are budgeted to increase 3.0% while patient volume as measured by acuity adjusted discharges is budgeted to increase 8.0% resulting in a 4.2% decrease in the cost per acuity adjusted discharge.

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AUMC (Projections do not include CGH)

- AUMC's FY98 operating budget (for the first full year that the Forbes and Allegheny Valley Hospitals are part of the AHERF System) reflects net income of $22.2 million. Continued development of clinical pathways and improvements to the focused case management approach are expected to result in a 1% reduction to the cost per acuity adjusted discharge.

DVOG

- Allegheny University Hospitals's operating budget reflects net income of $12.0 million, declining from FY97 due to deteriorating payment rates and increases in leasing and insurance costs. Inpatient acute admissions are expected to increase to 1,747 due to continued growth attributable to recent recruitment efforts of the primary care physician network offset in par by the continuing contraction of the market resulting from the effective use of utilization controls by managed care plans. Additionally, outpatient activity is budgeted to increase approximately 4.0% and operating expenses are to increase approximately 2.0%.

- St. Christopher's Hospital for Children operating budget reflects net income of $7.0 million, a decline from FY97 as inpatient admissions are slated to decline to 9,900. The decreased budget for FY98 reflects the expected impact of the opening of Temple Children's Hospital along with the deterioration of payment rates and contraction of the market. Expenses are to decrease in aggregate as a result of reduced volume projections and reduced support to medical staff development (i.e. physician practices will be expected to cover direct professional costs).

- Allegheny University of the Health Sciences FY98 operating budget reflects break-even operating results, a full year of the Pittsburgh Campus operations and significant growth associated with faculty recruitment. There is to be increased reliance on clinical services income and support from AHERF hospitals to subsidize teaching and research shortfalls. Additional support will also come from new hospitals added to the AHERF System during FY97.

Other - AIHG

- AIHG has budgeted $14.2 million for the acquisition of additional, primarily specialty, practices. Per the Company, this strategy has been abandoned in favor of realizing the efficiencies and increased referral from the most recent acquisitions.

- Refer to Exhibit #4.

8. Analysis of Other Sources of Repayment:

- The secondary source of repayment is the liquidation of assets. At 6/30/97, AHERF had liquid assets of $435.3 million. Liquid Assets were invested in cash and short term investments/marketable securities (45%), and government/corporate obligations (55%). Net liquid assets comfortably covers the approximately $134.0 million in DHE at over three times.

9. Transaction Structure:

- Although excessive covenants on a letter of credit may be unrealistic, we should attempt to limit transfers between the affiliates particularly when there are substantial operating loss in those affiliates.

AGHOG

- The letter of credit enjoys improved pricing and retains its comprehensive covenant package. The most restrictive covenant appears to be the Total Indebtedness to Total Capitalization maximum of 66.67% (actual at 6/30/97, 49.8%) due to the historically high leverage.

10. Contingencies and Other Issues:

- AHERF is self-insured for primary coverage and for certain levels of excess coverage related to professional and general liability claims through AHSPIC, Hahnemann Insurance Company (HAHN - an AUHS affiliated captive insurance company incorporated in Vermont), FHS Insurance LTD (An FHS affiliated captive insurance company incorporated in the Caymen Islands), and various self-insurance trusts. In addition, AHERF participates in the Medical Professional Liability Catastrophic Loss Fund of the Commonwealth of PA (CAT Fund) and maintains insurance under commercially insured programs on a claims-made basis for amounts in excess of the self-insurance and CAT Fund coverages. Premiums for the self-insurance coverage are retrospectively rated and are paid to AHSPIC, HAHN, and FHS Insurance LTD based on funding requirements determined by independent insurance actuaries to include provisions for estimates of the ultimate costs for both reported claims and claims incurred but not reported, determined on a discounted basis using a 7.50% rate.

I have read this credit underwriting memorandum and reviewed the information used in the analytical process.

Brian Camp
December 22, 1997

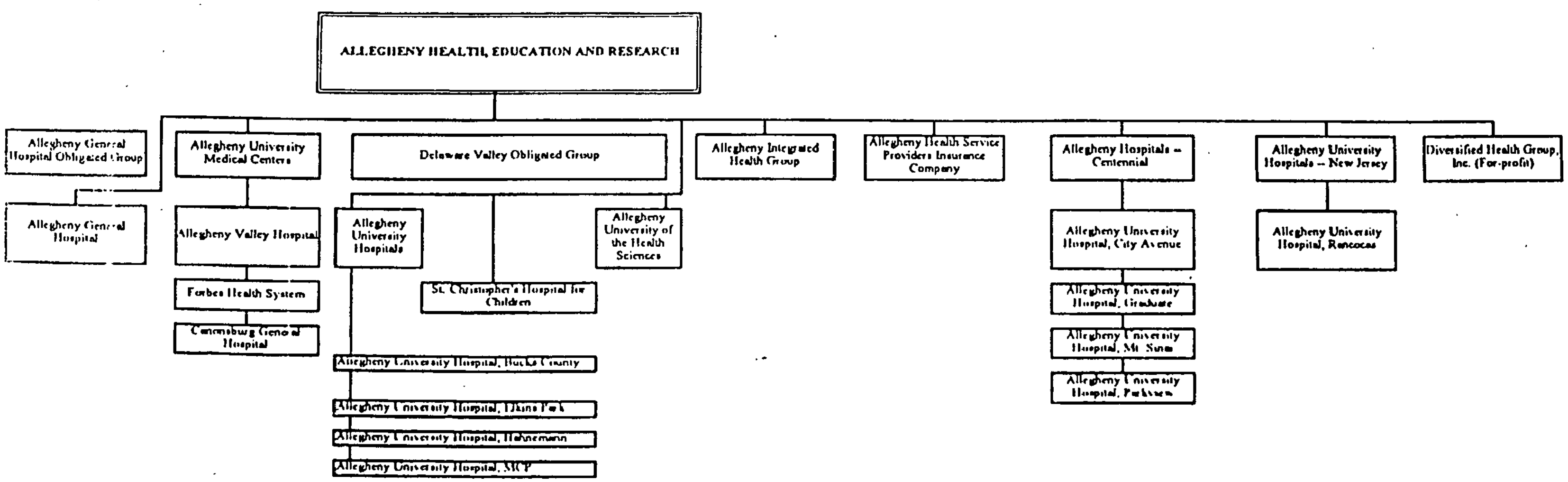
Paula A. Mammarella

Paula A. Mammarella
Healthcare Banking Group

PNC30893

(000s)

EXHIBIT 1
ORGANIZATIONAL CHART



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(000s)

EXHIBIT 2

The operating units that comprise the various obligated groups are summarized as follows:

Allegheny General Hospital Obligated Group :
Allegheny General Hospital

Allegheny University Medical Centers Obligated Group:
Allegheny Valley Hospital
Forbes Health System

Allegheny Hospitals, Centennial:
Allegheny University Hospitals, City Avenue
Allegheny University Hospitals, Graduate
Allegheny University Hospitals, Mt. Sinai
Allegheny University Hospitals, Parkview

Delaware Valllcy Obligated Group:
Allegheny University Hospitals, Bucks County
Allegheny University Hospitals, Elkins Park
Allegheny University Hospitals, Hahnemann
Allegheny University Hospitals, MCP
Allegheny University of the Health Sciences
Management Support Services (Corporate Division)
St. Christopher's Hospital for Children

(000s)

Exhibit 3

Long Term Debt consisted of the following obligations as of 6/30/97:

Pennsylvania Higher Education Facilities Authority (PHEFA) Revenue Bonds:	$302,688
DVOG Series 1996 A-C Health Service Revenue Bonds, net of unamortized discount of $3,462 (with maturity dates through 11/15/21 and fixed rates ranging from 4.0% to 5.88%)	
DVOG Series 1996 d Health Services Revenue Bonds (with maturity dates through 11/15/35 and variable interest rates ranging from 2.4% to 2.4% to 4.6% during fiscal year 1997 and at 4.1% on 6/30/97)	$50,000
AGHOG Series 1991 A Revenue Bonds, net of unamortized discount of $628 in 1997 (with maturity dates through 9/1/17 and fixed interest rates ranging from 6.3% to 7.25%)	$54,157
Allegheny County Hospital Development Authority (ACHDA):	
AGHOG Series A and B Hospital Revenue Bonds:	
A - net of unamortized discount of $421 (with maturity dates through 9/1/20 and fixed interest rates ranging from 4.75% to 6.25%)	$48,624
B - (with maturity dates through 9/1/20 and variable interest rates ranging from 2.25% to 4.5% during fiscal year 1997 and at 4.15% on 6/30/97)	$49,000
AGHOG Series 1993 A-C Notes:	
A - (with maturity dates through 7/1/12 and variable interest rates ranging from 3.63% to 5.95% during fiscal year 1997 and at 5.94% on 6/30/97)	$26,500
B - (with maturity dates through 1/1/12 and a fixed interest rate of 7.85%)	$13,370
C - (with maturity dates through 1/1/04 and a fixed interest rate of 7.33%)	$11,570
AGHOG Series 1988 A-D Hospital Revenue Bonds (with maturity dates through 3/1/17 and variable interest rates ranging from 2.35% to 4.5% during fiscal year 1997 and at 4.2% on 6/30/97)	$46,800
AVH Hospital Revenue Bonds:	
Series 1990, net of unamortized discount of $227 (with maturity dates through 8/1/20 and fixed interest rates ranging from 7.4% to 7.75%)	$12,473
Series 1986 Refunding, net of unamortized discount of $100 (with maturity dates through 8/1/13 and fixed interest rates ranging from 7.0% to 7.5%)	$24,750
Series 1982 Q, net of unamortized discount of $282 (with maturity dates through 7/1/15 and a fixed rate of 7.0%)	$5,803
The Hospitals and Higher Education Facilities Authority of Philadelphia Revenue Bonds:	
Graduate Hospital Series 1993 A and B Hospital Revenue Bonds, net of unamortized discount of $707 (with maturity dates through 7/1/18 and fixed interest rates ranging from 5% to 6.25%)	$53,833
Graduate Hospital Series 1991 A and B Hospital Revenue Bonds, net of unamortized discount of $3,337 (with maturity dates through 5/1/21 and fixed interest rates ranging from 6.5% to 7.25%)	$106,723
Monroeville Hospital Authority:	
FHS Series 1995 Hospital Revenue Bonds, net of unamortized discount of $966 (with maturity dates through 10/1/15 and fixed interest rates ranging from 4.5% to 6.25%)	$36,104
FHS Series 1992 Hospital Revenue Bonds, net of unamortized discount of $908 (with maturity dates through 10/1/13 and fixed interest rates ranging from 6.5% to 7.35%)	$42,257
Rancocas Hospital New Jersey Health Care Facilities Financing Authority 1987 Series C Revenue Bonds (with maturity dates through 5/1/12 and fixed interest rates ranging from 7.6% to 8.5%)	$41,040
DVOG Series 1996 E Taxable Notes Payable (with maturity dates through 11/15/15 and variable interest rates ranging from 5.36% to 5.68% during fiscal year 1997 and at 5.65% on 6/30/97)	$50,978
City Avenue Hospital and Parkview Hospital note payable to the Philadelphia College of Osteopathic Medicine (with maturity dates through 5/13/23 and an imputed interest rate of 6.0%)	$5,920
Other Obligations	$12,387
Less: CMLTD	($34,704)
TOTAL LONG-TERM DEBT	$960,273

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EXHIBIT 4

ALLEGHENY INTEGRATED HEALTH GROUP
FISCAL YEAR 1998 BUDGET

Consistent with the budget guidelines presented at the last board meeting, the operating performance of practices acquired on or before December 31, 1996 have been budgeted to improve 25% over fiscal year 1997 actual levels. On average, the improvement correlates to average losses per physician full time equivalent of $75,000 and $120,000 in the Delaware Valley and Pittsburgh regions, respectively.

In that the budgeted improvements relate to practices that were in AIHG on or before December 31, 1996, a significant subset of AIHG's total practices are not reflected in the averages. Specifically, the Delaware Valley region's budgeted improvement does not include the impact of the recently added Founder's Medical Group or Philadelphia Health Associates (PHA). It is expected that adding Founder's and PHA will have a positive net impact on the average loss per physician FTE. The averages for the Pittsburgh region do not include the addition of Penn Group Medical Associates or a substantial number of physicians added after January 1, 1997. Adding these practices to the Pittsburgh region's average loss is expected to increase the net loss per physician FTE. Consistent with the methodology for calculating the net loss per physician, the favorable impact relating to risk contracting is not included in the numbers above.

Key components of the projected improvements are outlined below:

- A revised physician incentive plan has been developed that is structured to encourage the physicians to focus on both revenue enhancement and expense control. Initial reaction by the physicians to the proposed plan has been very favorable and it is expected that a significant number of physicians will be transitioned to the new incentive program with a July 1, 1997 effective date.

- Detailed audits of the billing process at the physician offices continue to yield opportunities for revenue enhancement. Specifically, instances of under coding as well as offices not charging for services that are reimbursable have been identified and addressed through educational efforts. The audits and educational follow-ups are intended to augment compliance with applicable regulations while enhancing billing and collection efforts.

- Business plans continue to be completed prior to any significant changes (i.e., staffing changes, capital improvements) at the practices. The business plans consider the impact on volume, patient flow, revenue and expense of any proposed changes. Business plans also consider the impact of consolidating practice operations from multiple offices, as well as potential divestitures.

EXHIBIT 4 -- Page 2

Allegheny Integrated Health Group
Statements of Revenue and Expenses
for the years ending June 30, 1998 and 1997
(Dollars in thousands)

	Budgeted 1998	Projected 1997
Revenue		
Professional fees - Risk contracts (1)	$427,130	$117,270
Professional fees	111,120	73,880
Capitation payments	62,230	47,320
Investment income	50	50
Other	7,380	5,950
Total revenue	607,910	244,470
Expenses		
Salaries, wages and benefits	173,040	134,890
Patient care supplies	12,230	7,500
Purchased services	36,900	29,400
Purchased services - Risk contracts (2)	395,520	111,470
Administrative and general	13,910	10,790
Depreciation and amortization	9,660	7,590
Interest	260	50
Total expenses	641,520	301,690
(Deficiency) of revenue over expenses	($33,610)	($57,220)

(1) Reflects payments for Specialty, Hospital, Medical Management and Administration Services relating to the Risk Contracts. Primary capitation amounts are reflected in the Capitation Payments revenue line.

(2) Represents the anticipated claims experience and related expenses applicable to the Specialist and Hospital components.

Note: Risk contracts reflected in the statements above are USHC and Health America for the Delaware and Pittsburgh regions, respectively. Other significant revenue and expenses relating to risk arrangements (i.e. Qualmed and Keystone) will be added throughout the year as preliminary reconciliations are verified.

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EXHIBIT 5

(000s)

	Allegheny General Hospital FY96	Allegheny General Hospital FY97	Allegheny University Medical Centers	Delaware Valley Obligated Group FY96	Delaware Valley Obligated Group FY97	Allegheny Hospitals, Centennial	Allegheny Hospitals, New Jersey	Allegheny Integrated Health Group FY96	Allegheny Integrated Health Group FY97	Allegheny Singer Research Institue	AHERF Operations FY96	AHERF Operations FY97	Eliminations	CONSOLIDATED AHERF FY96	CONSOLIDATED AHERF FY97	Budget 1998
Total Operating Revenue	$427,331	$456,280	$105,021	$1,095,207	$1,131,432	$67,077	$17,077	$76,472	$126,989	$9,464	$21,276	$44,997	($56,552)	$1,514,216	$1,921,785	$2,939,986
Salaries, Wages and Fringe Benefits	$204,513	$197,392	$53,130	$597,645	$661,370	$26,048	$7,743	$84,861	$130,355	$4,829	$72,840	$106,387	$147	$959,854	$1,187,601	$1,564,444
(% of Revenues)	48%	43%	51%	55%	57%	39%	45%	111%	103%	51%	342%	237%		63%	62%	53%
Operating Income	($26,055)	($9,708)	$12,434	($1,106)	($2,481)	$9,112	$1,818	($40,507)	($60,400)	($6,304)	($15,526)	($57,392)	$1,665	($86,444)	($111,256)	($29,486)
(% of Revenues)	-6%	-2%	12%	-0%	-0%	14%	11%	-53%	-48%	-67%	-73%	-128%	–	-6%	-6%	-1%
EBITDA	$52,965	$55,691	$22,378	$104,203	$105,166	$14,422	$4,414	($36,151)	($53,069)	($4,900)	$25,171	$34,351	($11,241)	$142,875	$167,212	$222,484
(% of Revenues)	12%	12%	21%	12%	9%	22%	26%	-47%	-42%	-52%	118%	76%		9%	9%	8%
Net Income / (Loss)	$6,321	$11,843	$20,057	($1,291)	$23,701	$10,307	$3,191	($40,875)	($61,421)	($5,836)	$24,109	$24,872	($4,788)	($11,837)	$21,926	$34,572
Interest Coverage	3.80	4.29	6.04	3.86	4.32	6.09	8.10	–	–	–	–	–	–	3.49	4.42	3.32
calc.	52965/13927	55691/12975	22378/3707	104203/26984	105166/24366	14422/2369	4414/545							142875/40937	167212/38000	222484/66935
Debt Service Coverage	2.83	2.78	3.12	3.77	2.83	1.40	1.28	–	–	–	–	1493.52	–	2.65	3.37	2.19
Fixed Charge Coverage	1.00	1.69	1.98	–	1.19	1.00	1.16	–	–	–	–	0.96	–	0.73	1.03	1.30
LTD Debt / Cap	54%	50%	88%	73%	68%	94%	95%	3%	–	–	–	1%	–	53%	64%	62%
calc.	264344/492420	250001/502107	121592/137801	407120/558065	407281/598351	173937/184212	41183/43252	1096/31170				810/99086		672780/1252016	994977/1564477	972487/1569043
Adjusted LTD / EBITDA	4.99	4.49	5.43	3.91	3.87	12.06	9.33	–	–	–	–	0.02	–	4.71	5.95	4.37
Cash + Mkt Sec + Board Designated Funds / Senior LTD (5)	–	–	–	–	–	–	–	–	–	–	–	–	–	0.32	0.44	–
Data:																
Line of Credit - Current Liab.	$0	$0	$0	$40,100	$57,100	$0	$0	$0	$0	$0	$0	$0		$40,300	$57,100	$63,000
CMLTD	$7,023	$7,567	$3,462	$690	$12,803	$7,912	$2,912	$1,096	$0	$25	$0	$21		$8,809	$34,704	$37,801
LTD	$257,321	$242,434	$118,130	$406,430	$394,478	$166,025	$38,271	$0	$0	$88	$0	$807		$663,971	$960,273	$934,686
BEGINNING BALANCE-Net Assets	–	$213,326	–	–	$268,221	–	–	–	$37,074	$28,673	–	$216,703	$6,383	$712,676	$770,782	$824,766
Increase / (decrease) in Unrestricted net assets	–	$42,439	$16,189	–	$40,345	$10,275	$2,069	–	($62,169)	($19,028)	–	($21,863)	$2,296	($8,007)	$10,560	$36,342
Increase / (decrease) in Temporarily restricted net assets	–	$1,261	–	–	$26,944	$17,776	$1,323	–	–	($4,410)	–	($40,709)	($383)	$7,684	$1,804	$3,902
Increase / (decrease) in Permanently restricted net assets	–	$5,965	$18,932	–	$12,896	$7,171	–	–	–	($3,986)	–	$6,732	($4,110)	$58,429	$41,820	$3,307
ENDING BALANCE-Net Assets	$262,199	$263,191	$35,141	$268,221	$348,406	$35,222	$3,394	$37,074	($25,095)	($744)	$216,703	$160,863	$4,388	$770,782	$824,766	$868,717

Assumptions:
(1) Results represent FY97, unless otherwise indicated
(2) Coverage ratios use current year CMLTD for Contributing Entities
(3) Consolidating Cash Flow Statement or Reconciliation of Net Assets for FY96 was not provided
(4) Obligors are [illegible]
(5) Board Designated Debt is not broken out in the 1998 Budget

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EXHIBIT 6

LARGE PITTSBURGH AREA ACUTE CARE PROVIDERS
(Revenues > $190MM)

Measurement (In Thousands)	UPMC Health Sys.	Allegheny General	West Penn Hospital	Mercy Hospital	St. Francis Medical Ctr	Peer Group Average
Date Of Financial Statement	6/30/97 (1) (4)	6/30/97 (3) (5)	6/30/97 (4)	12/31/96	6/30/96	--
New Borrower as of 6/30/96	Old	Old	Old	Old	Old	--
Current DHE	$112,000	$46,610	$2,500	$10,500	$82,800	$45,735
Current PNC Risk Rating	2.0	3.0	5.0	4.0	5.0	3.2
Income Statement:						
Net Revenues	$1,221,441	$456,280	$218,838	$220,031	$194,050	$385,107
% Outpatient Revenues	N/A	N/A	N/A	N/A	N/A	N/A
SW&B/Total Op. Rev.	50.0%	43.3%	49.1%	45.1%	51.9%	39.9%
Cushion Ratio	10.70	N/A	5.56	7.90	5.91	5.01
Excess Margin	6.7%	2.6%	4.6%	1.5%	0.1%	2.6%
EBITDAR Margin	19.1%	12.2%	16.8%	10.2%	16.6%	12.5%
EBITDA Margin	20.5%	12.2%	16.8%	10.2%	13.2%	12.2%
Coverage Ratios:						
Liquidity Ratio (2)	0.67	N/A	0.51	0.82	1.16	0.53
Debt Service Coverage	2.72	2.78	3.35	2.71	1.52	2.18
Fixed Charge Coverage	1.21	1.69	1.53	1.10	1.13	1.11
Fixed Charge (w/o CAPEX)	2.72	2.78	3.35	2.71	1.52	2.18
Leverage:						
Sr. LTD Capitalization	49.3%	49.8%	48.0%	37.7%	42.6%	37.9%
Tl. Adj. LTD Capitalization	52.4%	49.8%	48.0%	37.7%	55.9%	40.6%
Total LTD/EBITDAR	4.65	4.49	3.28	3.56	3.95	3.32
Sr. LTD/EBITDAR	4.65	4.49	3.28	3.56	3.95	3.32
Other Statistics:						
# Licensed Acute Beds	--	800	--	538	720	343
# Staffed Beds	--	764	--	N/A	585	450
Length of Stay: Acute	--	6.2	--	6.4	8.0	3.4
Occupancy Rate	--	73.0%	--	74.9%	63.9%	35.3%
Payor Mix By Revenues:						
Insurance/Other	--	59.0%	--	36.9%	41.2%	22.9%
Medicare	--	31.0%	--	53.1%	48.4%	22.1%
Medicaid	--	10.0%	--	11.0%	10.4%	5.2%

NOTES:

(1) UPMC did not provide consolidating statements.
(2) Liquidity ratio is calculated by dividing the sum of cash, marketable securities, and board designated funds by the sum of LTD and CMLTD.
(3) Financial information for Allegheny General was obtained in the draft format, not breaking out board designated funds.
(4) Other Statistics and Payor Mix was not yet provided for UPMC or West Penn.
(5) Payor Mix for Allegheny General is as of 9/30/97.

EXHIBIT 7

LARGE DELAWARE VALLEY AREA ACUTE CARE PROVIDERS
(Beds in Excess of 250)
As of June 1997

Measurement (In Thousands)	Bryn Mawr	Lankenau Hospital	Thomas Jeff. U. Hospital	Children's Hospital	Presby. Hospital	Penna. Hospital	Hosp of U. of Penna.	Temple U. Hospital	Crozer-Chester	Peer Group Average
# Total Beds	260	291	546	304	322	391	641	406	458	402
# Total Days	5,034	6,228	11,992	5,878	5,499	8,120	15,617	9,993	8,400	8,529
Occupancy Rate	64.5%	71.3%	73.2%	64.5%	56.9%	69.2%	81.2%	82.0%	61.1%	69.3%
Total Admissions (1)	1,203	1,102	1,953	1,304	965	1,523	2,594	1,612	1,617	1,541
Average Length of Stay (1)	4.2	5.7	6.1	4.5	5.7	5.3	6.0	6.2	5.2	5.4
Clinic Outpatient Visits	105	954	--	6,006	2,567	11,980	52,683	12,275	8,399	10,552
County	Mont	Mont	Phil	Phil	Phil	Phil	Phil	Phil	Dela	--

NOTES: (1) Excluding intra-hospital transfers.

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